Nordic Outlook
August 2023

Soft landing possible, but very little growth momentum

Research reports

SEB

Contents
August 2023

Introduction 4

The global economy 5

International overview 6

Theme: Inflationary forces 13

Fixed income 16

The FX market 17

The stock market 18

Theme: AI and the economy 19

The United States 22

Japan 25

China 26

Emerging markets 27

The euro area 28

Theme: Green subsidies 31

The United Kingdom 34

The Nordics 35

Sweden 36

Theme: The krona and flows 40

Norway 44

Denmark 46

Finland 48

The Baltics 49

Lithuania 50

Latvia 51

Estonia 52

Key indicators 53

Contacts 58

Soft landing possible, but very little growth momentum

Autumn is approaching. We can look back on an unusually eventful summer full of headlines, often worrisome. Two ongoing systemic crises – the geopolitical situation and the climate crisis – remind us of the challenges facing humanity. Russia's war of aggression against Ukraine continues unabated. The Ukrainians are defending themselves bravely, but no end to the war is in sight. Relations between China and the United States continue to deteriorate, increasingly clear military blocs are emerging and there are growing restrictions on Sino-US economic exchanges. Record heat in North America, Asia and Europe (with the Nordic countries as wet and slightly chilly exceptions) provided a worrying backdrop to news stories about drought, heat stroke and fires that resulted in human suffering and great material devastation.

The economic news flow has been more mixed. On the gloomy side, China's reopening after its pandemic lockdowns looks set to be disappointing. Growth is returning to more normal levels but will add little momentum to the world economy. This is especially noticeable in Germany, where exports and other sectors face continued headwinds. Sweden's performance is also sluggish, with second quarter GDP figures showing a bigger slowdown than most observers had expected. Many Swedes taking holidays abroad were also unhappy about the record-weak krona. But the situation is not homogeneous and is far from hopeless; many economies show continued resilience. US growth has surprised on the upside, and we are upgrading our 2023 forecast significantly. In many countries, labour markets are showing high employment and low jobless rates. Although consumption is falling in some places in real terms, it is holding up in nominal terms, especially in services. Concerns about the financial system have clearly decreased since last spring's US banking problems. Furthermore, European gas reserves are well-filled ahead of next winter. Perhaps most importantly: Inflation is falling. Numerous rapid key rate hikes, along with supply-side normalisation, have had an impact. Price increases are slowing. Weaker economic activity, continued high interest rates, lower real household incomes and base effects as year-old price hikes vanish from inflation metrics suggest that inflation will keep falling this autumn. The main question is no longer how many more rate hikes there will be, but when the first cuts will occur.

The overall picture is that there is relatively good potential for avoiding an economic hard landing, especially in the US. Uncertainty is greater elsewhere. In Sweden, we will have weak growth both this year (negative) and in 2024 (around zero) but will likely avoid a deep, prolonged recession with sharply rising unemployment. Meanwhile we must not forget that we are living in unique economic times and cannot rule out that, for example, the record-fast key rate hikes of the past 18 months may have a larger negative impact on the economy than we have seen so far.

This August 2023 issue of *Nordic Outlook* includes in-depth theme articles that address the following issues:

- Inflationary forces, real wages and profit margins
- AI and the economy
- Green subsidies
- The krona and flows

We wish you pleasant reading!

Jens Magnusson
Chief Economist

Daniel Bergvall
Head of Economic Forecasting

The global economy

The United States | page 22

Resilient growth and fading inflation will lead to a soft-landing scenario. We believe the federal funds rate has peaked. Next year the Fed will cut its key rate by 150 points. Inflation will fall below target in 2024. Unemployment will rise a bit.

China | page 26

The real estate sector is mired in debt and oversupply, and there is a shortage of skilled labour. The government's attempts to stimulate the economy are not enough to boost domestic demand. We are therefore lowering our growth forecasts.

The euro area | page 28

Manufacturing is weak. Services have performed better but are losing speed. Due to high inflation and rising interest rates, GDP will stagnate near term. Growth in 2023 will thus be anaemic even if a major slump is avoided.

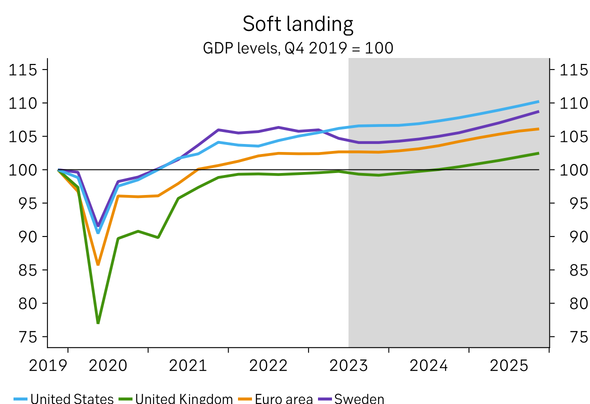
The United Kingdom | page 34

A labour shortage is leading to rapid wage and salary growth, interest rates are rising and underlying inflation remains high. The Bank of England will raise its key interest rate in September and will begin rate cuts during the second half of 2024.

International overview
Inflation and labour markets crucial for soft landing

Growth will be weak this autumn as households continue tightening their belts, but there will be a relatively soft landing as the United States and other countries avoid recession. Inflation is falling. But due to a sluggish decline in core inflation, central banks will wait until 2024 before cutting key rates. Global recession risks have diminished, yet there are lingering concerns. The economic outlook is weighed down by war, geopolitical turmoil, extreme weather, higher trade barriers and competing subsidies. The economic outlook for China has also deteriorated.

The serious security situation – especially the war in Ukraine and increasingly strained US and EU relations with China – continues to create human suffering and economic policy unpredictability. Record-high air and water temperatures, resulting in torrential rains, drought and forest fires, have raised questions about short- and long-term effects, including risks of everything from famine to inflation and trade conflicts. Upcoming elections in the US, the EU and elsewhere have the potential to increase political risk premiums in 2024.



Inflation and labour markets crucial. The inflation outlook and labour market developments are crucial if we are to experience a soft landing, with moderate or no growth for one quarter or so, or whether central banks and economists have underestimated the impact on the economy and financial system of aggressive key interest rate hikes over the past 18 months or so. Inflation has slowed, but how much and how rapidly it will continue falling will have a major impact on central bank policies, growth prospects and financial markets. The second piece of the puzzle is labour markets, whose vigour is one important explanation for the unexpectedly strong resilience we have seen so far. Our forecast is that only a slight rise in unemployment is needed – about 0.5 percentage points in both the US and the euro area – to ease wage pressures enough to slow inflation and enable central banks to shift towards looser monetary policies.

An economic slowdown has occurred. The effects of high inflation and rate hikes are noticeable but varied; the US is an exception. Growth has obviously decelerated. Households have faced powerful headwinds as real incomes have fallen, despite strong labour markets. Last spring's financial stress in the US and Switzerland has subsided, confirming global financial sector resilience. The Chinese economy has not recovered as expected but has instead lost momentum due to a troubled real estate market, weak domestic demand and geopolitics. We expect many central banks to have reached – or be close to – their peak interest rates. Meanwhile a clear downturn in inflation will help resolve various issues, although many will persist. Key interest rates are rising in real terms as inflation falls, which will be another headache for central banks and will influence their monetary policies.

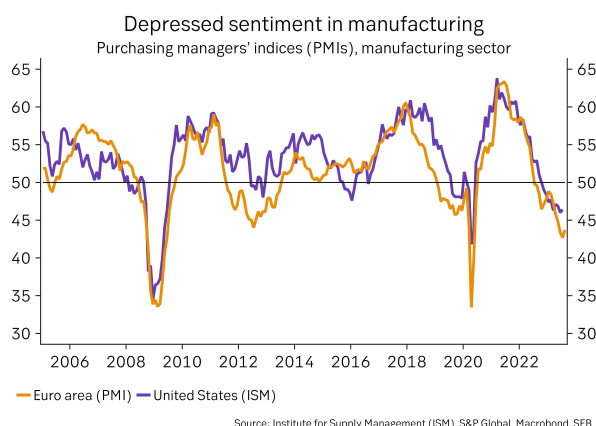
Global GDP growth
Year-on-year percentage change

	2022	2023	2024	2025
United States	2.1	2.0	0.9	2.0
Japan	1.0	1.8	1.2	0.9
Germany	1.8	-0.4	0.8	1.9
China	3.0	5.2	4.7	4.8
United Kingdom	4.1	0.1	0.5	1.8
Euro area	3.4	0.6	0.8	2.0
Nordic countries	2.7	0.1	0.6	2.3
Sweden	2.8	-1.2	0.1	2.5
Baltic countries	1.6	-0.4	1.2	1.8
OECD	2.9	1.4	1.2	2.1
Emerging markets	3.6	4.0	4.0	4.1
World, PPP*	**3.3**	**2.8**	**2.7**	**3.2**

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

Anaemic growth environment. Growth will decelerate this autumn, but at a slow pace. The US has surprised on the upside in terms of growth and will avoid a recession.

This is good for the world economy and will help increase risk appetite, although such resilience will also maintain inflation risks. Performance is weaker in the euro area. Its former growth engine, Germany, is in trouble. Manufacturing activity is sluggish after the energy price shock, with weak global demand for industrial products. The outlook we envision over the next few quarters is essentially a soft landing, though in some cases mild recessions cannot be avoided.

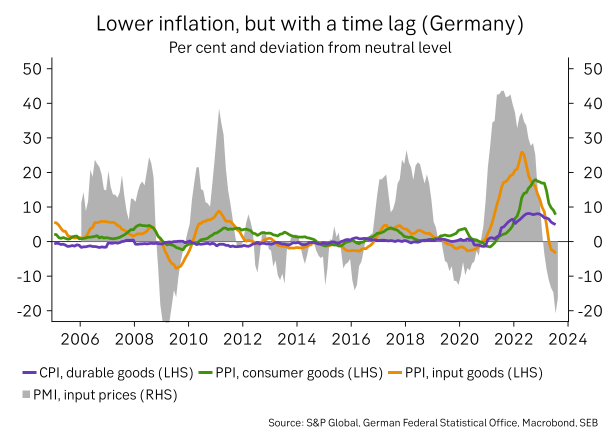


A more fragmented, multidimensional outlook. We are now seeing a more fragmented forecast situation. Household and manufacturing indicators are signalling a downturn, but actual outcomes are stronger. In terms of growth, the US has shown strength while Germany, Sweden and China are among those with bigger problems. Countries like the US that previously spent more on stimulus programmes have larger household savings buffers. Construction and the real estate market are under pressure in various countries, contributing to uncertainty and deceleration. Inflation is falling, but at different rates. For example, the United Kingdom has bigger problems with high wage inflation, which poses a challenge for the Bank of England. Due to varying inflation and growth conditions, central banks will cut key rates at different speeds in 2024-2025. Federal Reserve and European Central Bank key rates will be around 2.50 per cent by end-2025 – roughly neutral – while the Bank of England will still have some way to go.

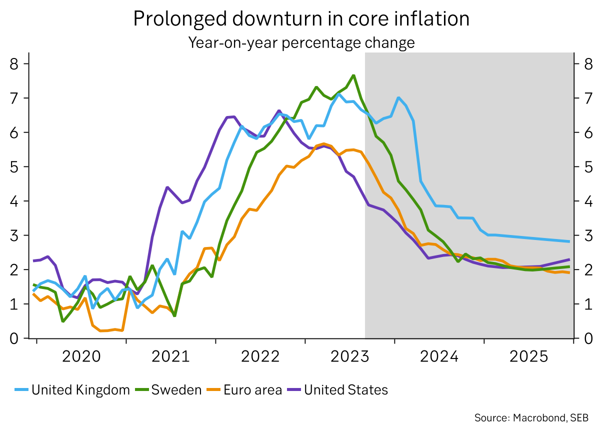
Inflation is falling, but at different speeds

Inflation is clearly falling, but at rates that vary from one country to another. The main drivers of lower inflation today are base effects from energy and food. But we are also seeing broad downward pressure on goods prices. All indications are that the downward inflation trend will continue. For various producer price metrics, in some cases prices are not only levelling off but are actually falling. Indicators such as PMI price expectations are pointing to continued easing of price pressures.

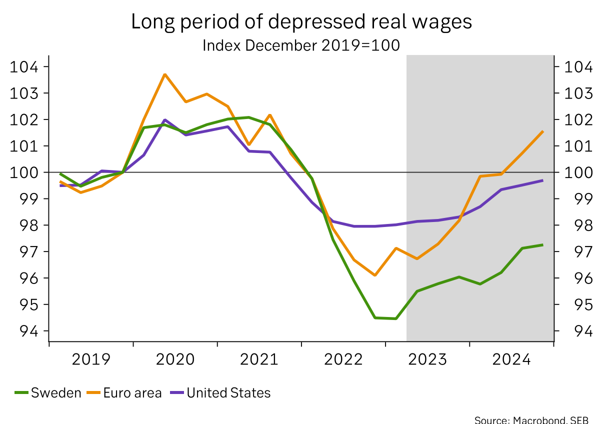
First input prices, then consumer prices. Despite positive signals, it is too early to say that the inflation problem is over. The impact on consumer prices from lower prices in early production stages is uncertain (read more about this in *Nordic Outlook*, May 2023, pages 13-15), both in terms of magnitude and time lag. Goods prices are decelerating and may even fall in the future, but it is generally unusual for consumer prices to fall. Meanwhile, the upturn during the past two years has been exceptional. For service prices, the picture is more mixed. Faster wage hikes are pushing up prices, but at the same time they are being held back by falling input goods prices. The service sector also still enjoys solid demand, enabling it to maintain high prices, but demand is expected to fall. Due to the structure of inflationary forces, core inflation will remain above headline inflation for much of our forecast period.



Core inflation will take more time. During 2021 and 2022, energy and food prices pushed headline inflation well above core inflation. We will now see the reverse during much of our forecast period. Exactly by how much will vary between economies and will depend primarily on how energy prices affect inflation metrics. We foresee the biggest gap in the euro area, where CPI energy prices in some large countries are lagging significantly behind market prices. Energy and food prices will remain well above pre-2021 levels. We expect weather, climate and geopolitics to have a major impact on inflation.



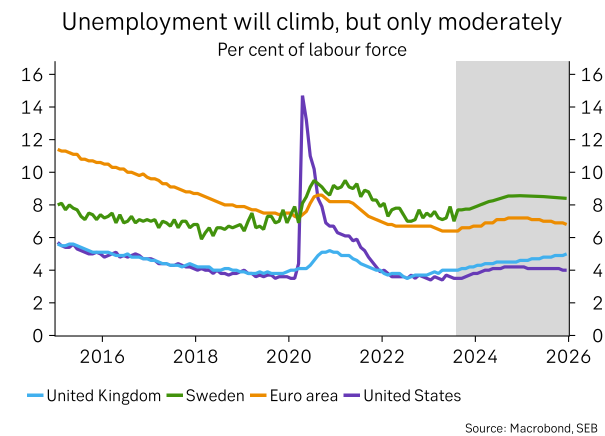
Is a slowdown needed, or will inflation ease anyway? Now that the inflation rate has fallen and forecasts are pointing to a continued decline, one important question is whether inflation will soon reach central bank targets, or whether "the last mile" will be the toughest. Is a powerful economic slump still necessary to bring inflation all the way down to target? Our conclusion is that a relatively mild increase in unemployment will be sufficient for wage pressure to decelerate and end up being in line with inflation targets. Our forecast is that central banks will successfully curb both inflation and wage growth without an economic hard landing. Although the potential for a soft landing is relatively good, this meanwhile implies that in most economies, the GDP level will remain below potential for most of our forecast period, thus helping dampen price and wage pressures. Key interest rates will not approach roughly neutral levels until 2025 and will thus contribute to continued but diminishing austerity.



Growth deceleration, but at a slow pace

The US and the euro area as a whole will avoid a recession, while individual economies such as Germany will shrink slightly. Households are under financial pressure because real wages have fallen 5-10 per cent compared to trend in some countries (see the theme article on inflation forces, page 13). Yet consumption has fallen only moderately in the euro area, while staying close to trend in the US. The savings ratio in both the US and the euro area has already fallen to pre-pandemic levels or lower. When labour markets weaken this autumn, though relatively moderately, and savings buffers run out, a second wave of austerity will begin. Households will have to tighten their belts further, construction will fall in many countries and we will have an anaemic growth environment for the next 2-3 quarters. The US will dodge a recession, which will support demand and financial markets and will thus be a positive force in the overall world economy.

Acceleration in 2025 as incomes rise and inflation approaches targets. When inflation has dropped further and interest rates have fallen, some growth momentum will return. After tough years for households, real wages will rebound and labour markets will improve. We then see greater scope for households to catch up with some lost ground. Despite this acceleration, US and European growth figures will only be slightly above trend in 2025. This will lead to a minor downturn in unemployment but will not suffice to achieve full resource utilisation during our forecast period. Labour markets will weaken only moderately during the coming quarters, limiting growth potential as many countries meanwhile grapple with demographic headwinds.



Problems in the Chinese economy. China's expected post-pandemic acceleration ended during the first half of 2023. Households are holding back, inflation worries have morphed into deflation worries, exports have fallen and bank lending is weak. Financial uncertainty is increasing, driven by a troubled real estate market, debt-ridden regional authorities and shadow banks, and the government's reluctance to launch broader stimulus policies. Increased geopolitical tensions, mainly with the US, are putting a further damper on the economic mood. China's central bank is struggling with the need to cut interest rates to support construction and real estate companies, but at the same time to avoid weakening the

currency. Beijing has the financial muscle to tackle many problems, but we are revising down our Chinese growth forecast by a total of about 1 percentage point for the period 2023-2024.

Global uncertainty and continued tensions

The world is facing several historic challenges. The war in Ukraine continues, and the price for the country to reconquer Russian-occupied territory will be high. The fact that the West, led by the US, increasingly sees economic and security policies as a single entity means that investment and trade – with a focus on China – are increasingly surrounded by obstacles. We are also seeing more active subsidy policies (see the theme article on green subsidies, page 31). Although these policies favour important areas such as environmental initiatives and green investments, they also include obvious elements of protectionism. Climate issues are becoming increasingly acute, with new record-high air and water temperatures. It is hard to quantify these events in economic terms, but they are clearly generating greater uncertainty.

Balanced risk outlook

The financial sector uncertainty that flared up in the US last spring highlighted tensions in the wake of a rapid rise in interest rates. In the May issue of *Nordic Outlook* we foresaw larger downside than upside risks. Now that we are at or near peak interest rates and inflation is slowing, our conclusion is that central banks have successfully dealt with increased financial stress. Its impact appears unlikely to prove worse than a period of anaemic growth and soft landings. We thus foresee a more balanced risk outlook.

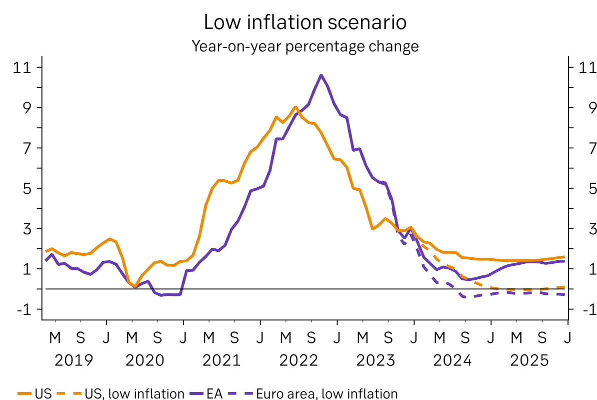
Downside risk from tightening and a second wave. The resilience of households, labour markets and the financial system are major uncertainty factors. One key question for our forecast is whether we are being fooled by long, elusive time lags. In such a scenario, resilience will only be temporary and risks will quickly turn into weakness. If the economic slowdown becomes more severe, with higher unemployment, things could quickly become worse than we expect in our main scenario – with spill over effects to real estate markets and other parts of the economy. It is also too early to write off the risk that financial sector stress will return or that China's slowdown, for example, will be more severe than we expect.

Scenarios for the OECD countries
GDP growth, per cent

	2022	2023	2024	2025
Main scenario	2.9	1.4	1.2	2.1
Negative scenario		1.0	-0.9	1.6
Positive scenario		1.7	2.7	2.2

Source: SEB

Growth acceleration if inflation falls rapidly. Inflation has slowed, but prices remain high. How much goods prices will fall, and how quickly this will be reflected in lower consumer prices, is highly uncertain. If we were to have downside inflation surprises, this may quickly have several positive effects due to strengthened real incomes and faster interest rate cuts by central banks. It does not take an extreme change in price assumptions to get a lower inflation forecast. For example, if we assume that one third of the food and goods price increases of recent years is reversed -- and in the case of the US, rents -- total inflation would fall much faster towards zero, improving purchasing power and easing pressure on central banks.



Energy prices will increase slightly

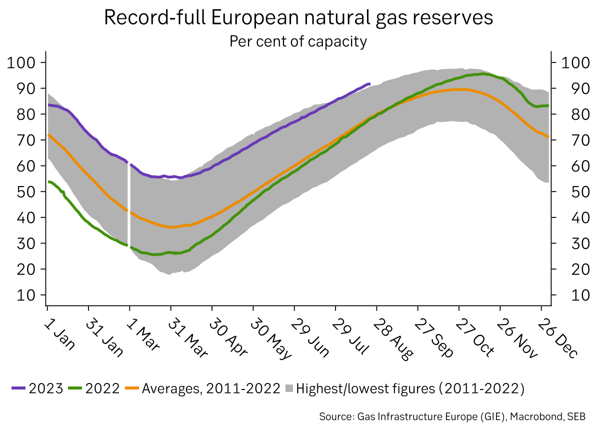
By means of production cuts, OPEC+ has contributed to an oil price increase to about USD 85 per barrel recently (Brent crude). Controlling oil prices is a balancing act; producers want a high price, but if it climbs close to USD 100 per barrel, this will increase discontent and ramp up pressure from such countries as the US, which for economic reasons and because of its 2024 election does not want high petrol prices. Our forecast is that the Brent crude price will largely remain around its current level at the end of this year. After that, when economic growth accelerates in 2024-2025, it will rise to USD 90 per barrel.

Well-filled European gas reserves, but still expensive. Europe's natural gas reserves are now about 90 per cent full; a 10-year record for this time of year. Europe

is trying to stock up as much as possible for winter. Given larger reserves, continued cost-cutting measures and expansion of renewable energy, Europe is clearly well prepared for the winter. Our forecast is that natural gas prices will rise late this autumn and this winter, but that the new normal – looking towards 2024-2025 and beyond – will be prices of around EUR 40-55/MWH. This is about double the historical average price but is substantially lower than we experienced during 2022.

Record-full European natural gas reserves

Per cent of capacity



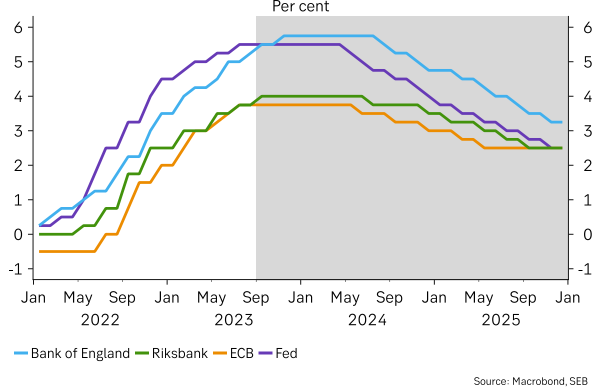
Source: Gas Infrastructure Europe (GIE), Macrobond, SEB

Fed will go first – rate cut in May next year

The Fed has now raised interest rates by 525 basis points at record speed in about 18 months. The focus of central banks' attention is now shifting from how much further key interest rates should be raised to when the first cut will come, although some central banks have one or more rate hikes left. Before it is time for rate cuts, inflation must fall further, especially the more sluggish core inflation. In addition to inflation and a slowdown in growth, central banks face more challenges. One is that the credibility of their forecasts has suffered a blow, especially when it comes to inflation forecasts – formerly a source of pride. The Bank of England has commissioned an evaluation on this question, and we are likely to see further external and internal reviews. Another challenge is that inflation hinders initiatives by fiscal policymakers, who do not want to fuel demand (and thus inflation) – making it hard for politicians to assist central banks when the economy slows down. A third challenge is the relationship between interest rates and financial stability. Interest rates must now be high due to inflation, but they are also squeezing households and businesses, especially in highly indebted countries.

Record-fast hiking cycle is ending

Per cent



Source: Macrobond, SEB

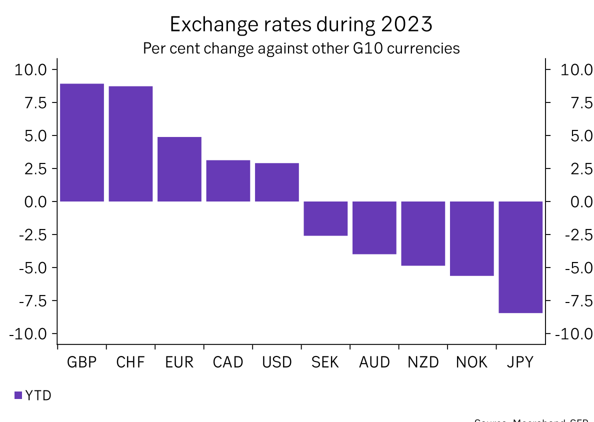
Fed cut will be first, BoE will remain at a higher level. We believe that the market is currently pricing in interest rate cuts a bit too fast. Our assessment is that central banks want to wait and make sure that the downward trend of inflation towards their targets will persist and that disinflationary forces can be confirmed. It is thus reasonable that they would rather wait a little longer to avoid a setback. This is also why key interest rate cuts will occur in standard 25 basis point steps unless something exceptional happens. The pace of the inflation downturn will determine their actions, and central banks will thus move at different speeds. The Fed will be the first to cut its key rate in May next year and will gradually reduce its rate spread against the ECB. By the end of 2025, both the Fed and the ECB will have a key rate of 2.50 per cent, a level that we consider close to neutral. A rapid downturn in US inflation will cause real interest rates to rise, making them more tightening than desired, which in itself may drive key rate cuts. The Bank of England's situation is more stretched, with a bigger inflation problem, an overheated labour market and rapid wage increases. The BoE will thus maintain its peak rate a little longer, and its end point will also be higher. This autumn the Bank of Japan will raise its key rate to zero. After Japanese core inflation rose, the BoJ decided to allow the 10-year Treasury yield to climb as high as 1 per cent with "flexibility" in the target, that is, above the ceiling of its tolerance range (0 per cent ±50 basis points).

Long-term yields will be determined by short-term rates when the peak is near. The upturn in long-term bond yields during the summer was driven by delayed expectations of key rate cuts and concerns about increased bond supply. Until the market is more confident that short-term rates are peaking and will soon be cut, there is some further upside risk. Long-term yields often peak soon before short-term rates, and during our forecast period we believe that key rates – actual and expected – will also govern long-term yields.

However, downside potential for 2024-2025 is relatively limited, given that long-term yields are currently at relatively low levels compared to key rates. In addition, downward movement in long-term yields will be limited by high private and public debt and the quantitative tightening (QT) policies of central banks. There is also speculation that inflation targets will be raised. Although we do not believe this will happen, in any event during the near term, it may keep inflation and maturity premiums higher.

SEK weakness & USD strength this autumn

With interest rate spreads and risk appetite as drivers, this autumn will begin with another period of US dollar strength. Later this year, as the market focuses more and more on when key rates will be lowered, the strength of the dollar should fade. This may allow a turnaround, with a depreciating dollar and a rebound for currencies that have been weak during 2023.



Weak Nordic currencies will regain some lost ground. Currencies such as the Swedish krona have been at record-low levels this summer. They have faced particularly strong headwinds due to market concerns about how interest rate hikes will affect households and the real estate market. The downturn has also been driven by hedge funds selling both Norwegian kroner and Swedish kronor. Next year – when we see growth stabilisation, greater risk appetite and narrower interest rate spreads – there will be potential for a stronger EUR, SEK and NOK. We also believe that the strong dollar cycle of recent years is coming to an end. In addition, long-term factors such as diversification out of the dollar as a reserve currency and better terms-of-trade for energy-importing European countries might strengthen the euro. Given the clear connection between the krona and the EUR/USD exchange rate, such a reversal may also provide support for the EUR/SEK rate. Our forecast is that the EUR/USD will climb from today's 1.09 to 1.19 in 2025 and that the EUR/SEK rate, which may climb above 12 this autumn, will fall below 11 in 2025.

Growth will help stocks but boost valuations

Stock markets have delivered a surprisingly good performance so far this year in an environment of rising interest rates and falling corporate earnings. A stock market consolidation in the near term has become more likely. After that we expect a brighter macroeconomic picture, with smaller recession risks, falling inflation and cautiously stronger growth in 2024. This provides hopes for a positive stock market trend. However, share price valuations remain high (which increases the risk of a correction), and we do not expect any sharp stock market upturns in the near term.

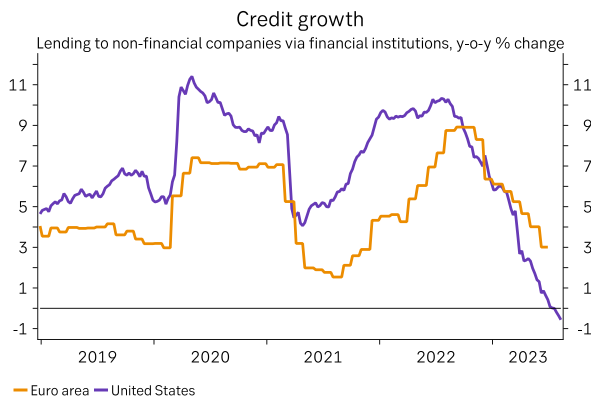
Falling credit growth with little drama

Tighter global monetary policy has dampened bank lending in the US, the euro area and elsewhere. We do not see reduced lending as an effect of the financial sector stress that characterised the US, Switzerland and other countries this spring, nor does it indicate an inability to lend money (a "credit crunch"). Credit spreads are not currently causing concern, despite significant challenges for commercial real estate. However, both the Fed and ECB bank lending surveys confirm that credit demand will continue to decline going forward. The credit cycle is likely to increase the number of bankruptcies, but from low levels. The resilience of the global banking system to increased losses is expected to remain strong.

Indices of US and euro area financial conditions from the International Monetary Fund (IMF) and others have eased in recent quarters, despite monetary policy tightening. One driver is rising prices for such assets as shares and homes. This may explain the surprising resilience of the real economy and the global banking system to interest rate hikes, but it also calls into question the effectiveness of the monetary policy transmission mechanism (see *Nordic Outlook*, May 2023, pages 20-22). As old loans are replaced by new loans with higher borrowing costs, the negative impact on growth becomes clearer. When key interest rates are cut in 2024, the outlook for financial conditions and credit growth will improve.

Now the money supply is also decreasing in various economies, including the US and Sweden. Most central banks, except in Japan, are pursuing policies that are causing their balance sheets to shrink. This is achieved by passively allowing fixed income securities to mature or by actively selling them back to the market, and/or by cutting back liquidity support measures. But it is a

relatively slow process. At the four largest central banks, the balance sheet reduction so far is just over 10 per cent compared to pre-pandemic totals (equivalent to a reduction of USD 2.9 trillion). However, the decline in money supply is welcome and is a sign of greater normality. This trend may have a certain inhibiting effect on global stock markets, but the trend of real interest rates is viewed as playing a greater role in the value of tangible and financial assets.



Neutral fiscal policy over the next few years

The past few years have witnessed historically large public policy interventions. The pandemic caused fiscal and monetary policies to go hand in hand to support growth. Fiscal policy has now also reversed. Pandemic stimulus measures have been phased out, but their effect remains in some countries via household savings buffers. Now that energy price subsidies in Europe have also diminished, we expect relatively neutral fiscal policies in most countries over the next few years. High debt levels, and in many cases continued large deficits at the same time as central banks have shifted from QE to QT, imply that room for manoeuvre is limited. This is reflected in actual policy even though conditions vary from country to country. Aside from stimulus payments to households, we are seeing that various investment-oriented programmes (for example in the US and the euro area) are having a positive impact. Because of high inflation, fiscal policymakers have limited room for manoeuvre, despite weak economic growth. A more worrisome aspect is the risk that the active fiscal and monetary stimulus policies of recent years have made households and firms too accustomed to such support. If this is true, there is a risk that households and businesses will not be cautious enough. This may be one reason why, for example, consumption and home prices have not recently fallen further.

Theme:

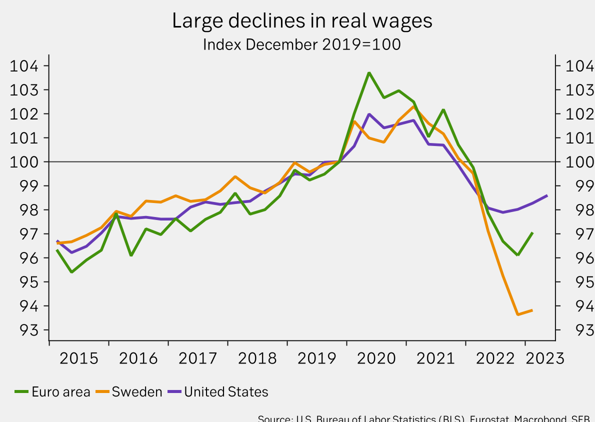
Inflationary forces

The dynamic between inflation, real wages and profit margins

High inflation has caused real wages and salaries to fall. In the United States, they are now 5-7 per cent below their historical trend. In Sweden the divergence is even greater. This decline cannot be explained by pandemic-related production disruptions and falling productivity. The main driver is higher world market prices. Profit margins in the business sector have risen, but this increase is mainly visible among energy and commodity producers, which have benefited from high world market prices. Real wages now appear to have started a recovery via a combination of higher nominal pay and lower inflation. Because of divergence from the long-term trend, a reversal of the price increases of recent years is not an unlikely scenario.

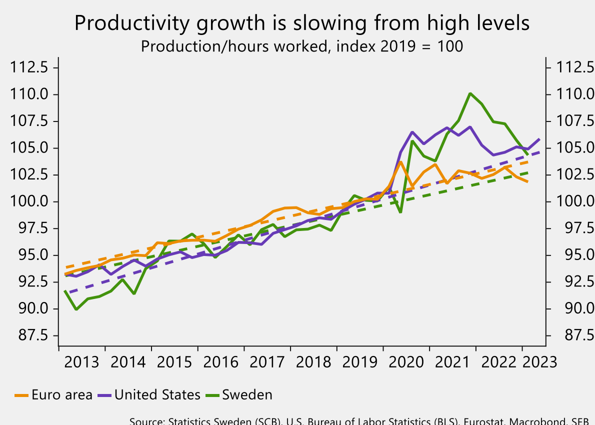
High inflation during 2022 and 2023 has led to a sharp decline in real wages. We must go back to the early 1980s to see a similar development. Since the beginning of 2019, real wages have fallen about 6 per cent in Sweden, 4 per cent in the euro area and 2 per cent in the US, where real wages have declined less due to higher nominal wage growth. Compared to the historical trend, however, the drop is a full 5 per cent. The corresponding divergence from trend was a full 9 per cent in Sweden and 6-7 per cent in the euro area during Q1 2023.

Inflation is now slowing down. At the same time, nominal wage growth is accelerating. This means real wages are rising again. Given our forecasts for wages and inflation, normalisation looks likely to take several years. To understand whether an adjustment can occur faster, and if so, how the dynamic may play out, this theme article focuses on what contributed to the decline in real wages.



Strong productivity during the pandemic

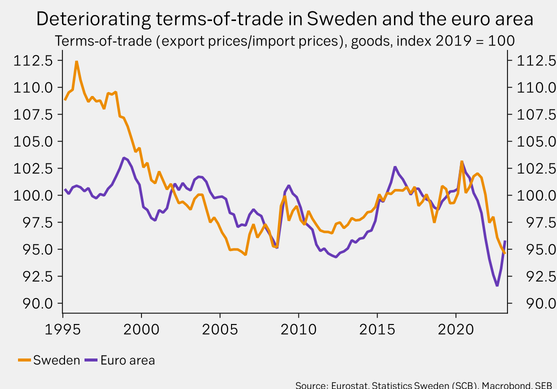
An initial observation is that domestic production disruptions have not driven prices higher, at least not overall. Swedish productivity growth has instead been higher in recent years than the historical trend. This is also true of the US. But in the euro area, productivity growth seems somewhat below trend (see chart).



Although Swedish productivity growth has slowed, it has not yet fallen below trend. It is following a normal cyclical pattern. Productivity growth will fall below trend over the next year for cyclical reasons, but there is currently no indication that it has greatly affected inflation and thus the real wage decline of recent years.

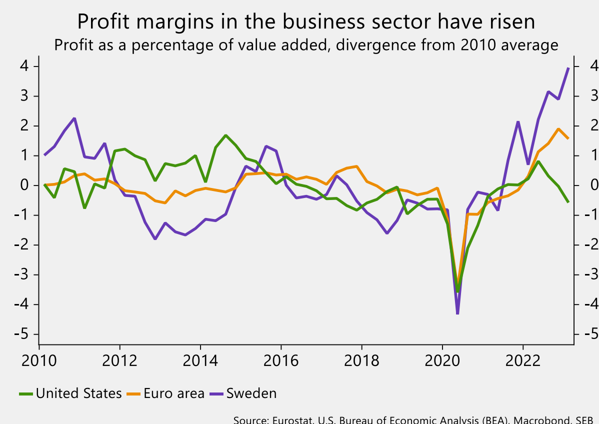
Deteriorating terms-of-trade

Because Swedish productivity growth has apparently not weakened, lower real wages may instead have been driven by higher business profits and/or import costs. There are signs suggesting that both these factors have helped fuel higher inflation; for example, import prices in Sweden and the euro area have risen 5-10 per cent more than export prices, weakening terms-of-trade. Due to their dependence on external energy, both have been affected more negatively than, for example, the US.



Higher profits, but unevenly distributed

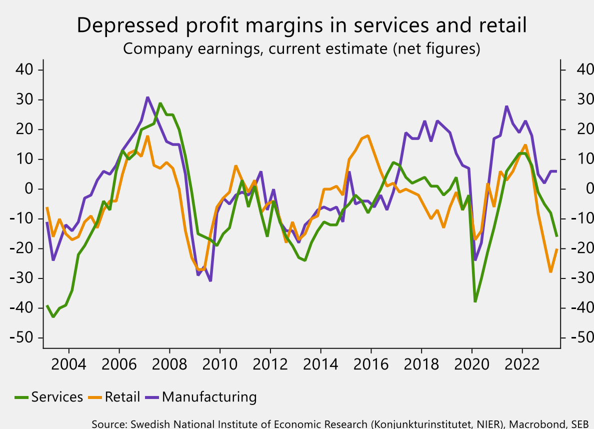
There are also indications that higher business profits have contributed to lower real wages. For example, the profit margin has risen to the highest levels in many years. But much of this increase is connected to the energy and commodity sectors. These developments vary greatly between industries.



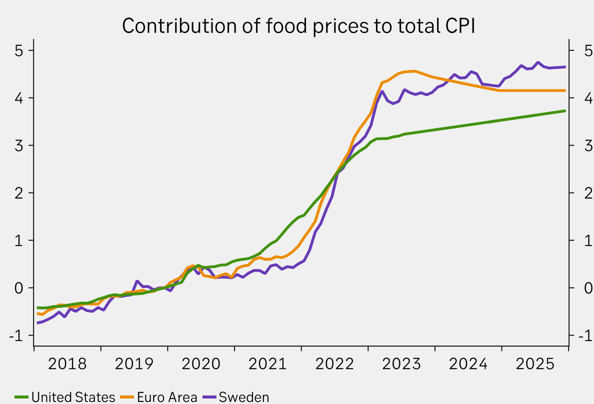
However, it is hard to measure business profits. Profit margin is a rough measure that tends to diverge significantly from reported earnings. For example, data from the National Institute of Economic Research's economy tendency survey indicate depressed profits in Sweden's retail and service sectors, while manufacturing margins have held up fairly well. Relatively high manufacturing profits are probably related to the weak krona and only partly reflect the ability of companies to raise domestic prices. The NIER survey also supports the view that the increase in margins is not driven by a broad upturn in business earnings, especially in domestic sectors.

Recovery is likely – but uncertain how fast

A real wage recovery is likely in Sweden, the euro area and the US, but there is uncertainty about how fast this will occur. It is also uncertain whether the recovery will take place through rising nominal wages or lower inflation. Developments look the most positive in the US.

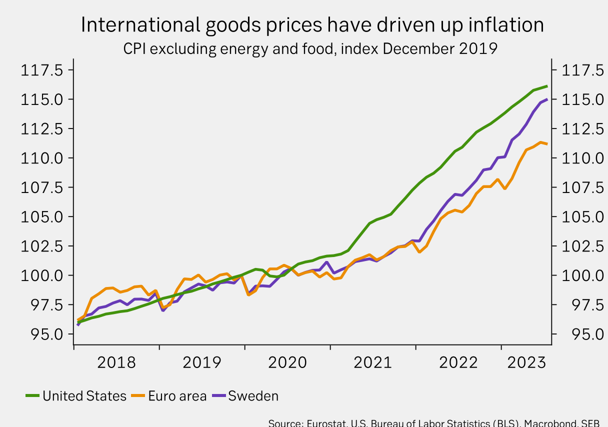


To some extent, the adjustment in real wages has already begun. High energy prices – a key driver of growing operating surpluses in some sectors – and terms-of-trade deterioration in 2022 have been partially reversed. They have thus already helped push down inflation. Large portions of consumer price increases have been reversed. The decline is expected to continue in the coming year. But energy prices remain far higher than in 2019, especially in the euro area. Subsidies, tax cuts and price controls softened the energy price upturn in euro area CPI but help lower inflation now that prices are falling.



Higher food prices can explain 3.5-4.5 percentage points of the rise in inflation in Sweden and the euro area; the US upturn is marginally smaller. Food price increases have stalled, but there are currently no clear signs that they may soon be reversed. Commodity prices have fallen slightly, but their levels are still very high. Larger declines will probably be necessary for CPI prices to also fall as clearly. High energy prices have most likely contributed to high food prices. In addition, international prices for fertilisers have reversed more than half the 2022 increase.

The upturn in inflation has been broad-based overall, and core inflation has been significantly higher than before the crisis. Besides indirect effects from energy and food, large increases in global commodity prices have been important. As with food, it seems possible that some of the increases can be reversed. For example, global freight rates have given up almost their entire upturn from the aftermath of the pandemic.



Higher nominal wages – some price declines

The allocation between wages and business profits, i.e. the profit margin, varies over time around a long-term average. It is therefore likely that a relatively large proportion of the real wage declines of recent years will be reversed. Initially, higher nominal wage increases will thus be an important driver. However, inflation has also slowed significantly – so far mainly due to lower energy prices and stagnating increases in food prices.

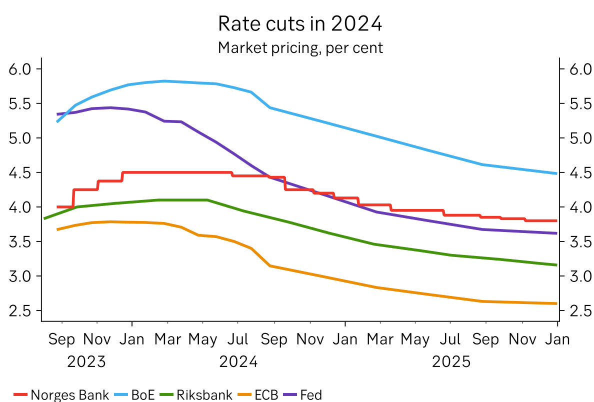
A broader deceleration in inflation is on the way. In the US, core inflation has clearly started to fall. The extent of this decline is uncertain, but there are many indications that goods inflation will be lower than its historical trend soon. This will help push core inflation even below central bank targets for a while. But there is great uncertainty, and our inflation forecast must weigh potentially falling goods prices against accelerating wage increases.

It is unusual for price increases in the CPI to be reversed, but a slight reversal in the large goods price increases of recent years is a downside risk to our CPI forecasts. The large decline in real wages reflects that their potential impact could be significant. If they rise in line with our forecasts, there may be an adjustment in real wages during a long period of low inflation. But such developments presuppose that energy and international commodity prices will not rise again – far from a sure thing in the current uncertain geopolitical environment.

Fixed income
Waiting for signs of lower policy rates

Long bond yields have turned higher this summer due to delayed rate cuts and an increasing supply. Uncertainties will keep yields high in the autumn but in 2024, when rate cuts come closer, yields will decline and curves will steepen. German yields will decline less than US ones, thus narrowing the spread. Quantitative tightening (QT) is expected to put upward pressure on Swedish yields and widen the spread vs Germany. In 2024, Norwegian bonds will be supported by falling inflation and interest rates.

After lacking direction since last autumn, global long bond yields have turned higher during the summer – with US and German yields near their October 2022 highs. The bond market selloff has been driven by stronger than expected data, delayed rate cut expectations, a dramatic increase in bond supply, and by the Bank of Japan allowing domestic bond yields to rise. While markets have already priced in these factors to some extent, bonds may remain under pressure until the timing of key rate cuts becomes clearer.



US rates: Lower when the policy rate heads lower. We believe that the Federal Reserve concluded its hiking cycle in July and will initiate rate cuts in Q2 2024. Since the mid-1980s, US long yields have peaked at around the time of the final rate hike and then declined throughout the rate cutting cycle. Compared to previous cycles, the current level of US long yields is low relative to the federal funds rate, which means that prospects for a significant decline in long yields until closer to the rate cutting cycle are more limited than historically. Given the ongoing reduction of the Fed's balance sheet and a mounting bond supply, this means that the 10-year yield will increase to a new high of 4.50 per cent during the autumn before falling to 3.90 per cent in 2024.

Euro area: Modest downside in yields in 2024. While we believe that the European Central Bank (ECB) ended its rate hiking cycle in July, it will be a close call whether rates will be raised further this autumn. The ECB's narrative is nevertheless changing to maintaining peak rates for longer and possibly speeding up its ongoing balance sheet reduction We believe that the German 10-year government bond yield will rise to 2.80 per cent this autumn before declining to 2.60 per cent in 2024, driven by cautious ECB rate cuts.

10-year government bond yields
Per cent

	Aug 24	Dec 2023	Dec 2024	Dec 2025
United States	4.23	4.50	3.90	3.00
Germany	2.52	2.80	2.60	2.50
Sweden	2.75	3.10	2.90	2.80
Norway	3.79	4.10	3.70	3.40

Source: National central banks, SEB

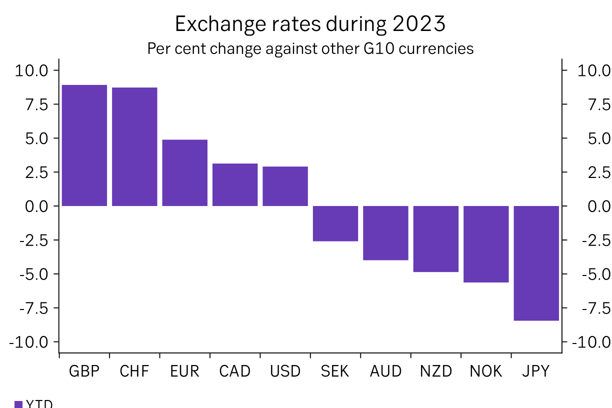
Sweden: Upward pressure from QT. In June the Riksbank announced that starting in September, monthly sales of government bonds will be raised by SEK 1.5bn to SEK 5bn. Since the Riksbank announced that bonds would be sold outright in February this year, the 10y spread vs Germany increased from around -25bps to the current 10-15 bps. We predict that the Riksbank will increase the volume of its bond sales again later this year, contributing to some further widening in yields vs Germany. The spread will widen to 30bps by year-end, then largely stabilise in 2024.

Norway: Disinflationary support in 2024. Norwegian government bonds (NGBs) have underperformed Germany this year as inflation has proven sticky, forcing Norges Bank to gradually lift its terminal key interest rate. A final rate hike in September will widen the spread against the ECB's deposit rate to 50bps, contributing to keeping yield spreads wide this year. Rapidly easing inflation and weaker growth prospects should, with subsequent rate cuts, support NGBs in 2024. A relatively favourable supply outlook will tighten the spread against Germany further. We expect the 10-year spread vs Germany to narrow from 130bps at the end of 2023 to 110 and 90bps in 2024 and 2025, respectively.

The FX market
Record-weak krona, but there will be a turnaround

SEK weakness and USD strength characterise today's tumultuous FX market. This autumn the market will focus more on when central banks will start cutting rates. This should slow current trends and allow a turnaround by year-end. But we expect the biggest movements in 2024, when the Fed begins to cut its key rate, opening the way for a longer-term shift towards a stronger krona, but allowing even an interest-sensitive currency like the yen to begin recouping its losses of recent years.

This summer the krona has reached record lows against the euro. In May and June, its weakness was mainly driven by rising concerns about Sweden's real estate sector, while its depreciation in August was mainly due to falling global risk appetite. We believe the krona will continue to weaken this autumn, but a turnaround will come before the end of 2023 – partly based on the currency's strong December seasonal pattern, but above all because the market will focus more on upcoming rate cuts (Fed first out), which should improve risk sentiment.



Varying drivers. It is usually possible to pinpoint 1-2 factors that explain much of any currency's movements. But this year, different currencies require different explanations. Weakest of all in 2023 is the Japanese yen (JPY), which tends to trade weakly as long as US interest rates rise. The fact that the Bank of Japan (BoJ) is the only G10 central bank that has not yet raised key rates does not help either. Strongest is the British pound (GBP), which appreciated in the first half on a reduced risk premium connected to high electricity prices, a hawkish Bank of England and support from high key rates but should weaken in the second half and continue to do so in the longer term, given British structural challenges. As US interest rates fall, the JPY should strengthen. There is also reason to consider whether the BoJ might intervene in the FX market, as it did last autumn, to strengthen the JPY.

Exchange rates

	Aug 24	Dec '23	Dec '24	Dec '25
EUR/USD	1.08	1.09	1.16	1.19
USD/JPY	146	134	125	120
EUR/GBP	0.86	0.89	0.92	0.93
EUR/SEK	11.90	11.65	10.90	10.50
EUR/NOK	11.58	11.45	11.00	10.70

Source: Bloomberg, SEB

Interest rate-sensitive households have pushed down currencies. One popular hedge fund position this year has been to sell currencies of countries with interest rate-sensitive households (NOK, SEK, AUD and NZD) and buy currencies assumed to be more stable and, due to less interest rate sensitive households, be supported by central banks that can hike rates more (EUR and GBP). As inflation slows and market focus shifts in late 2023 to the timing of key rate cuts, the quantity of such hedge fund positions should decrease, which should have a corrective effect on exchange rates. Based on this and on an energy price recovery this autumn, the krone has great upward potential. Our model for Norges Bank (NB) currency purchases also shows a smaller need. If NB stops selling NOK this autumn, this will be another factor favouring a stronger krone, with more persistent inflation than in other countries providing support in both 2023 and 2024.

New currency cycle may be confirmed in 2024. EUR/USD usually trades in cycles of about 8 years, but after the financial crisis EUR/USD fell for 14 years. A turnaround came in September 2022 and since our main scenario is a soft landing in the US and cautious Federal Reserve rate cuts starting in Q2 2024, there is potential for a longer upward cycle to have started. Aside from next year's key rate spreads, this cycle will be supported by longer-term structural factors such as diversification away from the USD as a reserve currency and improved terms of trade in Europe. Our long-term equilibrium model suggests that EUR/USD should trade closer to 1.19 than today's 1.08. Given the clear links between the krona and EUR/USD, such an upward cycle would also support a long-term EUR/SEK turnaround. Another likely prerequisite for a stronger SEK is fiscal policy, as we discuss in the theme article on p. 40.

The stock market
Brighter prospects discounted after upturns

Despite rising interest rates and declining earnings, stock markets have delivered surprisingly robust figures, with growth companies and the US leading the way. Stronger arguments for soft landings and falling inflation are giving investors hope, but weaker earnings, higher valuations and lower risk premiums will dampen potential and boost chances of a consolidation soon. Overall, increasing investor confidence and reduced growth- and inflation-related risks suggest reasonable future returns.

So far this year the stock market has been surprising, to say the least. At end-2022, those who expected 2-3 more Fed key rate hikes than the market was pricing in, rising long-term yields and downgraded earnings forecasts probably did not believe the S&P 500 could gain around 17 per cent by now and the Nasdaq could almost double.

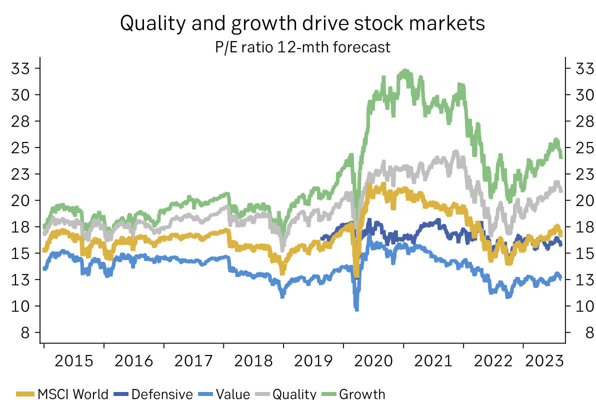
Are stock market valuations high? Higher share prices and lower earnings forecasts have pushed up valuations. Along with rising interest rates and yields, risk premiums have turned low. Overall, valuations are not yet troublingly high. Global price-earnings (P/E) ratios are around 17, based on 12-month earnings forecasts; the US is at the top with nearly 20 while Europe and emerging markets are trading at around 12-13. Sectoral composition justifies higher US valuations, but the gap has widened this year, because the upturn has largely been driven by so-called super-quality companies, with strong and stable earnings growth. This includes tech giants like Microsoft and Nvidia, but also the luxury goods conglomerate LVMH and pharmaceutical giants Eli Lilly and Novo Nordisk.

Not just growth companies that have driven the upturn. Although the upturn has been led by growth companies, other market segments have also been upgraded since their lows of last year. This makes earnings growth crucial to future stock market performance. In recent quarters, earnings have continued to outpace forecasts, but forecasts have been gradually lowered. In absolute terms, the current situation is not entirely convincing. In the US, earnings are now falling by more than 5 per cent year-on-year. Although there are major differences between sectors – with energy and commodity companies at the bottom – unchanged volumes and declining profits indicate some overall pressure on margins. This is occurring from high levels and is natural in an economic slowdown, but if forecasts of around 10 per cent earnings growth in 2024 are to hold, this trend needs to be interrupted. Surprisingly weak growth in China is also worrying.

Signs of strength provide stock market support. This year's development of fundamental factors provides hope. A soft landing in the economy, together with the clear decline in inflation, will encourage investors as central banks pivot to future rate cuts.

Room to increase risk-taking. When it comes to investors' actions, this summer has shown an interesting shift. The stock market upturn early in 2023 was essentially caused by momentum-driven investors and private individuals. Recent surveys indicate that so-called "long only" investors, such as pension fund managers and equity mutual funds, have increased their risk. This movement started from record lows, and many such investors are still in the cautious camp overall. One conceivable positive interpretation is that investors are increasing their risk-taking now that soft landings and continued falling inflation can be included in forecasts. Meanwhile there is room for further increases in risk.

There is an increased risk of short-term corrections. After sizeable stock market upturns, the risk of a correction – or at least a consolidation – increases. We are inclined to believe that the latter may characterise stock market performance in the near term. A continued focus on falling inflation, looming key rate cuts and growth that will pick up reasonably soon will eventually open the way for a broad-based stock market upturn. However, valuations and slow growth make major rallies less likely.



Theme: Artificial intelligence

AI and the economy

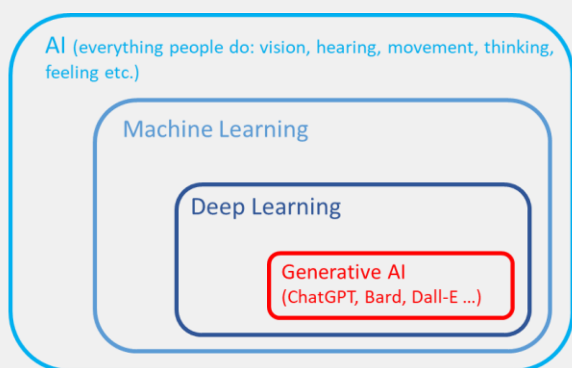
Big potential impact, depending on technological development

The new AI services that have attracted so much attention during the past year have the potential to change many industries and, in the long run, the entire economy. The magnitude of these changes will mainly be determined by how quickly the technology develops – which is surrounded by great uncertainty. AI can provide significant global productivity gains and help ensure low inflation, but in the long run it could also pose a downside risk to labour markets.

Without a doubt, the biggest hype of the past year has concerned the ongoing AI revolution. Generative AI services such as ChatGPT and Bard have become available for use by people and businesses all over the world. So far, the debate has mostly been about everything the new technology can be used for, whether developments are moving too fast and whether AI may become a threat to all of humanity. Although the latter is a crucial issue, this theme article is limited to questions about how AI technology may affect the economy in the future. Growth, productivity, the labour market and inflation are some key areas where AI can potentially have a major impact. Macroeconomic forecasts are always difficult to make because they are de facto attempts to predict the future. But in this case, all predictions become even more uncertain because AI technology itself is subject to great uncertainty as to how rapidly it is developing and thus what it can thus be used for. This means that all figures must be taken with an extra-large pinch of salt.

Multiple levels of AI. The concept of *artificial intelligence* is nothing new. It was coined as early as the 1950s and can be broadly described as the ability of computers and robots to do everything that we humans can. AI is already being used today, and in many cases this is related to an area of AI called machine learning (ML).

ML can be defined as training a computer to perform a task without being directly programmed for all the steps this task requires. One possible example is a robot that drives materials around in a factory and finds where it needs to go, while avoiding any obstacles along the way. Within ML there is a subcategory called Deep Learning (DL), which is based on the use of "neural networks" to find more complex relationships than are possible with traditional ML. One example may be an AI that – based on what TV series you previously watched – suggests new series that you will probably also like. If we go even deeper into DL, we find what is called Generative AI.



Generative AI is the latest step. Generative AI is defined by AI's ability to create its own new unique outputs, based on what it is trained for and what you tell it to do. Examples of generative AI are services like ChatGPT, Bard, DALL-E and Stable Diffusion, which have had made their big public breakthroughs this past year. Generative AI also marks the limit of how far AI technology has progressed so far. The next really big step on the development ladder will be to successfully create Artificial General Intelligence (AGI). In short, this is AI with capabilities comparable to human ones, which could thus also perform all the intellectual tasks we humans perform today.

Rapid technological development makes forecasting difficult. Today there are divided opinions among the world's AI researchers about how much better today's large language models, which form the basis of ChatGPT, Bard and others, can become. Many leading experts and big AI companies believe that large language models as they are made bigger will also get better and better until one day they become as good or better than humans at pretty much everything. More and more people thus believe that AGI only needs to be a few years away. While it is hard to ignore such predictions from those who know the most about the new AI technology, this is of course no guarantee that they will come true. Remember, for example, all the far-fetched predictions made during the days of the dot-com bubble by IT experts and the hyped companies of that era, such as Sweden's *Framfab* and *Icon Medialab*. Although many of the predictions eventually came true, it took much longer than many people thought at the time. There is also another camp of experts and researchers who instead argue that large language model technology will soon reach a ceiling for how much better it can become. If this turns out to be true, an AGI may instead be many decades away and today's AI services will not become as powerful as many people believe. Either way, great uncertainty about technological development makes it very hard to estimate how big an impact AI will have on the economy over the next few years.

How can AI affect the economy?

Although the magnitude of AI's economic impact is hard to estimate, it is possible to get some idea of what this impact will look like. Since AI is about machines gradually being able to do more and more things that only humans can do today, the technology has the potential to affect almost all parts of the economy. But if we limit ourselves to looking at four central concepts – productivity, growth, labour market and inflation – it may look like this:

Productivity: AI's clearest channel for influencing the economy is that it can boost productivity. Productivity is most easily defined as the amount of GDP produced per hour worked. The impact of AI is likely to be gradual, with the technology initially being used as a tool to enable humans to be more efficient at their jobs. But if the technology becomes so good that AI can completely replace humans in many professions, the productivity increases may also be enormous.

Growth & labour market: As productivity increases, so will economic growth, since it is reasonable to believe that some of these productivity gains will be passed on to employees and that they can thus increase their demand. In the long term, however, there is a risk that large occupational groups may be outcompeted by AI services. If these people fail to find new jobs at the same pace as old jobs disappear, the outcome will be higher unemployment and – all else being equal – lower demand and growth in the economy. In such a scenario, new policy initiatives will be needed to redistribute profits from production to consumers in order to sustain demand. One future solution discussed in this type of scenario is the introduction of a tax-financed basic income. The impact on the labour market has always been a key topic of discourse during technological shifts; One important question is whether things will be different this time, or whether the economy will once

again succeed in redirecting employment when some jobs disappear. Perhaps there are reasons to be a little more worried if change occurs so fast that the workforce does not have time to adapt and if AI eventually becomes better than humans at everything.

Inflation: Technological revolutions always tend to result in downward pressure on prices, and this is also likely to be one effect of the AI revolution. But AI has the potential to affect inflation more than we have seen before. Over time, the most important driver of inflation is continuously rising wages and salaries. Here, increasing competition from AI in the labour market may instead lead to permanent downward pressure on wages, which will be the only way for people in many professions to remain competitive. In that case, it will lead to very low inflationary pressure in the economy.

Few and very uncertain forecasts. Since AI in various forms has already been used by companies for a long time, there have also been many studies over the years about the effects of this technology on the economy. Unfortunately, for obvious reasons nearly all these studies were conducted before the past year's breakthrough for generative AI and have thus not been able to factor in everything that this technology may be used for. But some studies including these developments are starting to appear. In an analysis published in June this year, the consulting firm of McKinsey estimated how much generative AI could contribute to the economy across 63 different applications. McKinsey concluded that the technology could generate value of USD 2.6-4.4 trillion (about 3 per cent of global GDP). In their baseline scenario, between one quarter and one third of all jobs will be affected by AI over the next decade. Overall, tasks that currently require 60-70 per cent of working hours may be fully automated. The McKinsey study predicted that AI may lead to annual productivity increases of 0.1-0.6 per cent between now and 2040 and that, unlike previous technological revolutions, AI will have a bigger impact on high-paying service jobs than on simpler, more physical jobs. In another analysis published this past April, Goldman Sachs predicted an even greater impact. The investment bank estimated that the use of large language models could add close to USD 7 trillion to the global economy by boosting productivity 1-1.5 per cent annually over a 10-year period (counting from the beginning of widespread implementation of the technology). In the global labour market, the equivalent of 300 million jobs could be automated. Goldman Sachs estimated that in the US, two thirds of all occupations would be affected by AI and that one quarter of all tasks could be automated.

Interpreting forecasts cautiously. Today, we can probably reach almost any "reasonable forecasts" since uncertainty about technological development gives us great flexibility about what assumptions to make. This is the most important reason why all numerical forecasts of how much impact AI will have are highly uncertain. But there are further reasons for caution.

How quickly are companies embracing AI? Aside from the pace of technological development, the speed at which new AI services are implemented by businesses will also determine the magnitude of their impact on the economy. One strong reason for believing that implementation will occur relatively fast once the technology is mature is that AI services are likely to provide large cost savings compared to human employees. AI works around the clock, requires no pay or vacation, is never sick and needs no office to work from. It is already clear that the number of services based on generative AI is growing rapidly. Assuming that their quality continues to improve, it is hard to foresee this trend being interrupted. In the long run, this may lead to dramatic changes for many professions, from taxi drivers to lawyers to economists and many others. One thing that may still delay implementation is that many businesses have a long way to go in organising their own data in a way that will allow AI to train itself using them.

Politicians – a guarantee that things will not move too fast. Because AI could have a strongly disruptive impact on national economies and labour markets, politicians around the world are increasingly interested in these developments. Although few concrete decisions or actions have been implemented, the power of political decision-makers should not be underestimated if it becomes clear that AI is developing too fast. The primary task of politicians is to ensure that their voters have jobs and opportunities to support themselves. This is also probably the best guarantee that even if the technology made it possible, we would not see AI causing mass unemployment over a few years. Such a development would most likely lead to political backlash. The tools that political leaders could use to prevent the current social model from changing in uncontrolled ways include imposing regulations restricting the use of AI and starting to tax AI services in order to make them less competitive.

AI will probably become more and more important. All else being equal, AI can be regarded as an upside risk to productivity improvement, while instead posing certain downside risks to labour market and inflation forecasts over the next few years.

The United States
Increased hope for a soft landing as inflation slows

Thanks to resilient growth, together with fading inflationary pressures, a soft-landing scenario in which the US avoids a recession again looks within reach. We believe that the fed funds rate has peaked and that in 2024, starting in Q2, the Federal Reserve will cut its key rate by 150 basis points. Inflation is expected to fall below target in 2024 and unemployment will rise slightly. The impact on the labour market will be small compared to previous tightening cycles.

The US looks set to dodge a recession. Growth has been surprisingly strong in the first half. We are revising our 2023 forecast substantially upward, from 0.7 per cent in the May issue of *Nordic Outlook* to 2.0 per cent. As before, we expect the economy to slow due to the Fed's sharp tightening. But we expect the deceleration to come later, at the end of 2023, and to be mild and short-lived. For 2024, we are sticking to the previous forecast of 0.9 per cent growth. During 2025 the economy will grow by 2.0 per cent, roughly in line with the long-term trend.

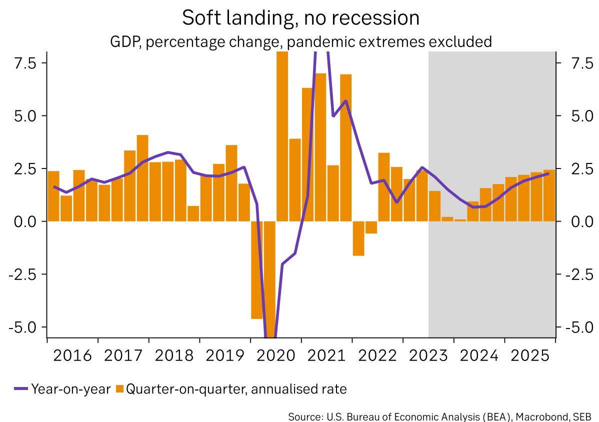
Key data

Year-on-year percentage change

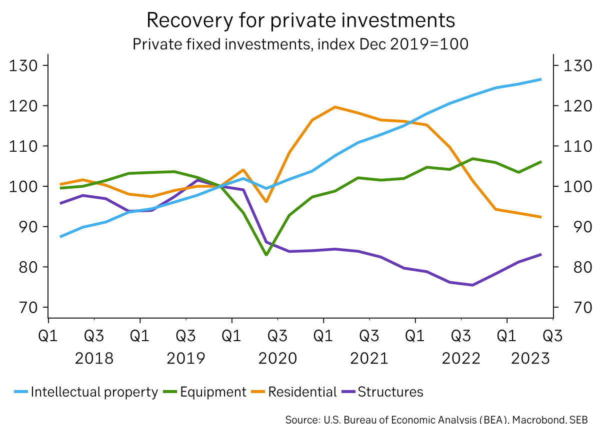
	2022	2023	2024	2025
GDP	2.1	2.0	0.9	2.0
Unemployment*	3.6	3.6	4.1	4.1
Wages and salaries	5.3	4.4	3.5	3.0
Core PCE (Fed target metric)	5.0	4.0	2.0	1.9
Public sector balance**	-3.7	-6.7	-7.0	-7.3
Public sector debt**	121	122	127	131
Fed funds rate, % ***	4.50	5.50	4.00	2.50

*% of labour force **% of GDP ***Upper end of the Fed's range.
Source: Macrobond, SEB

Strong growth in Q2 as well. Growth accelerated somewhat further during the second quarter of 2023, but this reflected large fluctuations in the inventory cycle. Excluding inventories, growth slowed a bit but remained strong. Private investments in equipment and buildings rose surprisingly in Q2, partly offsetting a slowdown in consumption, while residential construction remained weak. The public sector continued to support the economy, particularly at the state and local levels.



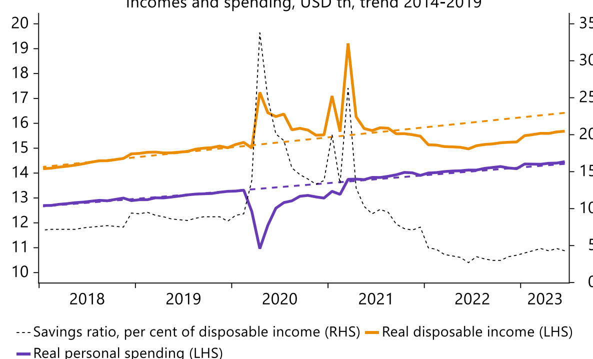
Banking sector stabilisation. Our May forecast was influenced by turbulence in the banking sector and the risk that tighter credit conditions would exert further downward pressure on both private consumption and investments. The gloomy capital spending outlook was also supported by weak business investment plans. However, government actions such as the takeover of several regional banks and new Fed lending facilities seem to have restored confidence. Deposits and lending at small banks have stabilised. The Fed's quarterly lending survey shows that banks continued to tighten credit conditions during the spring, but relatively little compared to earlier in the rate hiking cycle. In addition, market funding conditions have eased due to narrower credit spreads, rising stock markets and a slightly weaker dollar. The risk of new banking sector problems remains but is no longer the main scenario.



A brighter capital spending outlook. We now expect private investments to continue rising. The upturn in investment plans, especially among smaller firms, has narrowed the gap between actual and planned capital spending. This change has coincided with signs of stabilisation in business confidence surveys. Sentiment

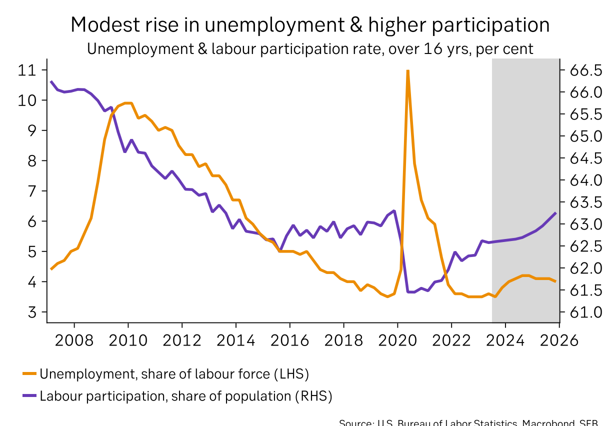
remains weak in manufacturing but has stopped falling, while the service sector has remained resilient. Housing investments are weighing down total investments this year but appear close to bottoming out. In 2024 and 2025, capital spending will rise across the board.

Bidenomics having an impact. The Biden administration's infrastructure, semiconductor and green transition reforms appear to have helped lift capital spending in recent quarters. According to the White House, nearly USD 500 billion (about 2 per cent of GDP) worth of new investments in electronics and semiconductors, batteries and electric vehicles plus bio-industries have been announced since 2021. The semiconductor industry, which accounts for almost half of this new spending, has stressed the importance of last year's CHIPS and Science Act. The manufacturing support cannot match the huge unfunded pandemic stimulus to households, but when they enter the economy they provide a welcome boost to growth as other areas face headwinds.



Households are more cautious as their stimulus money runs out. As usual, households are the focus of our forecast since they account for about 70 per cent of total GDP. Their savings surplus peaked at over USD 2.1 trillion (close to 10 per cent of GDP), enabling households to withstand both high inflation and rising interest rates. But these reserves are now being depleted. According to some Fed estimates, the entire surplus has already been spent; according to other estimates they will be depleted in Q3. Instead, since mid-2022 rising real wages have returned as a driving force, supported by high pay increases and a strong labour market as well as by lower inflation. However, except for a strong boost in January (due to a large one-off social security hike), the rate of increase in real incomes has been modest and below the pre-pandemic trend. This suggests that consumption will continue to decelerate in the future as the labour market weakens. We expect private consumption to rise by slightly above 2 per cent this year but only by 0.8 per cent in 2024. In 2025, consumption growth will pick up again, supported by rising employment and slower price increases, and will grow at a more normal pace of about 2 per cent.

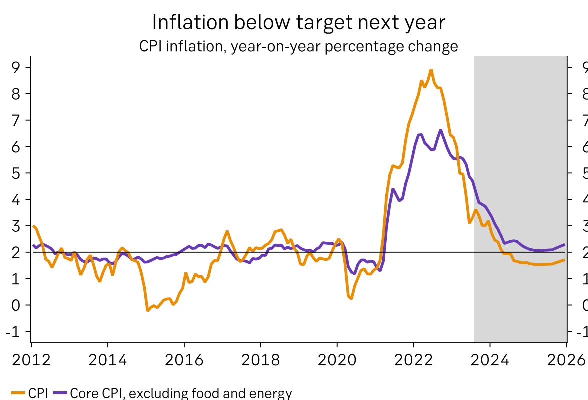
Moderate upturn in unemployment as economic activity weakens. We are now making a slightly more optimistic forecast for the labour market as well. Employment is expected to decelerate by the end of 2023 and early in 2024. The upturn in the jobless rate will still be moderate, with unemployment peaking at just over 4 per cent. The economy is emerging from an overheated situation with highly buoyant labour demand, which is a source of uncertainty.



Hope for a soft landing in the labour market. Historically, the Fed's fight against inflation has caused sharp rises in unemployment. Post-pandemic developments are diverging from this historical pattern. Although the Fed has hiked its key rate since March 2022 at the fastest pace since the early 1980s, unemployment has remained at historically low levels of around 3.5 per cent. Meanwhile, inflation has fallen from nearly 9 per cent last year to just over 3 per cent in July this year, while pay increases peaked about a year ago. We continue to see wages as driven by extreme imbalances in the labour market during the pandemic rather than by a lasting change in the relationship between wages and unemployment. In that case, it may suffice for excess demand for labour to subside while unemployment need not rise very much.

Moving towards better balance, but challenges remain. Indicators such as job vacancies and small business labour shortages are now falling but have some way to go before reaching normal levels. Subdued employment growth in recent months, including in tourism – the sector with the highest vacancy rates in the past – supports the view that the worst imbalances are being resolved. But the tight labour market is still setting a limit on how fast the economy can be expected to grow going forward. In our forecast, we expect

labour force participation to return to pre-pandemic levels by the end of 2025, while the inflow of foreign labour has recovered the losses incurred during the Trump presidency and the pandemic. But even with such relatively optimistic assumptions, employment will remain below its pre-pandemic trend, when the jobless rate fell from nearly 7 per cent in late 2013 to 3.5 per cent in February 2020. The Fed estimates that employment can grow by around 100,000 jobs per month to be compatible with a balanced labour market; the pre-pandemic average was around 180,000. The surge in productivity at the start of the pandemic supported growth and likely reflects both investments in labour-saving technologies and structural effects (fewer low-productivity service jobs). However, productivity growth has started to fall towards its previous trend.



Inflation below target by the end of 2024. Base effects from high energy prices in 2022 have caused inflation to fall rapidly over the past year. Core inflation – excluding food and energy – was driven early in the pandemic by a sharp rise in goods inflation, especially for cars. Better functioning production chains and a shift in demand from goods to services have subsequently pushed goods inflation lower. Even excluding used cars (whose prices are now falling rapidly), goods prices fell in July at the fastest pace since the start of the pandemic (-0.2 per cent). Instead, core inflation is now being driven entirely by rising rents. But a clear slowdown in rent hikes for new leases is expected to be reflected after a lag by a normalisation of rents in CPI as well. Wages and salaries are the biggest upside risk to inflation. Here, too, we are making an optimistic estimate. We expect companies to let their margins shrink rather than pass wage cost increases on to consumers. Our forecast implies that core inflation will be back below the Fed's 2 per cent target by early 2025. As a full-year average, core inflation will fall from nearly 5 per cent this year to 2.5 per cent in 2024 and just over 2 per cent in 2025.

Fed focus will shift to future rate cuts. Fed members' forecasts ("dot plots") in June indicated another key rate hike this year after the July hike. However, signs that inflationary pressures are now easing more broadly are easing pressure on the Fed to continue monetary tightening. We believe the July hike was the last in this cycle. Rapidly falling inflation should then pave the way for rate cuts in 2024 if growth temporarily cools and labour markets and wage increases return to more normal levels. Fed Chair Jerome Powell has been clear that rate cuts can begin before reaching the target as falling inflation would otherwise lead to tighter policy from rising real interest rates. The latest dot plots indicate key rates a total of 100 basis points lower in 2024. We believe things could move a bit faster than this and that by the end of 2024, the key rate will be at 4.00 per cent (the upper limit of the federal funds target range), 150 bps below today's level. By end-2025, the key rate will be at 2.50 per cent, in line with the Fed's estimate of a long-term neutral rate. The Fed has signaled that the slimming of its balance sheet, QT, may continue even after interest rates start to be cut. However, we still believe that QT will end next year.

Real neutral rate on the way up? The surprising resilience of the economy raises questions about the level of the neutral real interest rate, r*, and whether it is still as low as 0.5 per cent. In the short term, excess savings and long fixed mortgages appear to have reduced households' interest rate sensitivity. This suggests that r* is currently higher and monetary policy thus less tight than old rules of thumb suggest. Whether the long-term r* has risen is more uncertain. Different Fed models currently give very different assessments of r*. We therefore believe that it is too early for the Fed to draw any conclusions for the long-run interest rate.

Unsustainable deficits. Thanks to a last-minute debt ceiling deal in May between the White House and congressional Republicans, the US once again narrowly avoided a looming default. The deal represents some moderation in government spending compared to the original White House budget but does not fundamentally change the outlook for US government finances or growth. The federal budget is expected to continue running unsustainable and partly foreign-financed deficits, made possible by the attractiveness of the US dollar as a reserve currency. Following the recent debt ceiling crisis, Fitch has downgraded the US credit rating in the same way as S&P did in 2011. The downgrade reflects the need for reforms, both in terms of entitlement spending commitments and the budget process, but we do not expect any changes in the near term or in the absence of international pressure.

Japan
Slow monetary policy shift

Rising domestic demand and a weak yen – which is boosting tourism – are offsetting weak global demand. Inflation is being stabilised by higher nominal wage growth, service prices and imported inflation. The Bank of Japan's monetary policy shift is moving slowly, and the yen thus remains undervalued; negative key interest rates will be abandoned this autumn. Weaker global conditions and structural forces are weighing on the GDP outlook, yet we expect Japan to grow close to the potential rate.

Growth will continue to be supported by several drivers: Normalisation of service consumption and domestic investments, due to repatriation of business operations to reduce vulnerability in global value chains and increased automation to address the problems of major labour shortages. The global security policy situation will also require a substantial increase in the defence budget during the next few years, which will add growth momentum to the economy. Meanwhile, monetary and fiscal policies remain supportive, with the government's 2022 supplementary budget adding 5.5 per cent of GDP in spending – extending over several years and improving growth without driving up inflation. We expect relatively stable economic performance this year and in 2024, and somewhat slower growth in 2025, with downside risks dominating. GDP growth will be 1.8 and 1.2 per cent 2023 and 2024 respectively. In 2025, we expect growth of 0.9 per cent, i.e. close to estimated trend growth of 0.5-1.0 per cent.

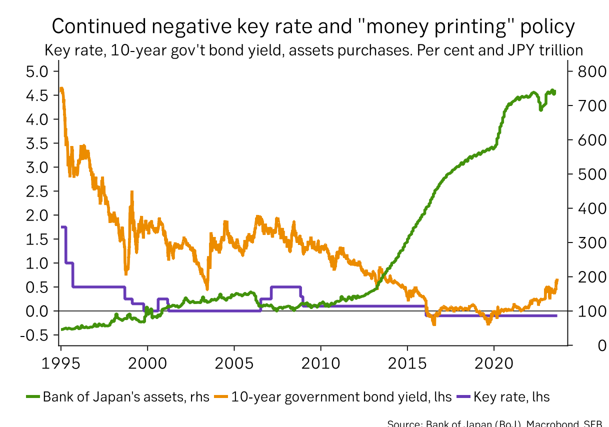
Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	1.0	1.8	1.2	0.9
Unemployment*	2.6	2.5	2.4	2.4
CPI	2.5	3.2	2.0	1.3
Public sector fiscal balance**	-7.8	-6.4	-4.0	-2.9
Public sector debt**	261	258	256	258
Key interest rate, %***	-0.10	0.00	0.00	0.00

*% of labour force **% of GDP ***At year-end. Source: IMF, SEB

Corporate profits have remained steady despite headwinds from higher commodity prices. The decline of the yen in 2022 and so far this year – almost 15 per cent against a currency basket – has benefited exports and stimulated higher capital spending. Business investment in digitisation is expected to boost productivity.

We expect the labour market to remain tight, partly due to heavier demand from the service sector. Meanwhile the labour supply is shrinking due to an ageing population. Wage growth has accelerated to around 2.5 per cent, but the risk of slower wage growth remains. The household savings ratio will normalise from 9 per cent during the pandemic to around 2 per cent at the end of our forecast period, supporting private consumption until 2025.



With core inflation above 3 per cent and rising key interest rates abroad, the Bank of Japan (BoJ) chose to adjust its ultra-loose monetary policy at the end of July. The tolerance range for the 10-year government bond yield remains at 0 per cent ±50 basis points, but now with "flexibility" allowing yield to rise to 1.0 per cent. The BoJ is expected to continue its policy of relatively extensive asset purchases (quantitative easing, QE) to safeguard both domestic and global financial stability; Japan's financial institutions and the rest of the world have benefited greatly from this QE policy for many years. This autumn, the BoJ is expected to abandon negative key interest rates (currently -0.10 per cent). Our forecast is that the rate will be raised only once, to 0.00 per cent in December this year. Downside risks to inflation remain. This means that QE policy will also be phased out very slowly. At year-end 2023, the USD/JPY exchange rate will be at 143; in December 2024 and 2025 we expect USD/JPY of 130 and 120, respectively.

China

Weaker GDP growth ahead, due to policy mismatch

The Chinese authorities' attempts to stimulate the economy through traditional supply-side means will provide some boost going forward. But absent more direct transfers to households, structural challenges will limit domestic demand, especially household consumption. We are therefore lowering our 2023 and 2024 GDP forecasts to 5.2 per cent and 4.7 per cent, respectively.

GDP growth was largely disappointing in the first half of 2023. Whereas authorities have provided some stimulus, this is unlikely to boost domestic demand enough to justify our old forecast of 5.9 per cent**.** Global demand for Chinese goods appears modest, possibly well into 2024. Recent economic data have been weaker than we expected in May. With Q/Q growth of 0.8 per cent in Q2, and expected growth of 1.3 per cent in Q4, we have lowered our GDP forecast to 5.2 per cent in 2023 and 4.7 per cent in 2024.

Key data

Year-on-year percentage change

	2022	2023	2024	2025
GDP	3.0	5.2	4.7	4.8
CPI	2.0	0.7	1.8	2.0
Fiscal balance	-4.7	-5.5	-4.7	-3.7
1-year loan prime rate, %**	3.80	3.45	3.45	3.45
7d reverse repo rate, %**	1.80	1.7	1.7	1.7
USD/CNY**	6.36	7.1	6.7	6.5

*% of GDP **At year-end. Source: IMF, SEB

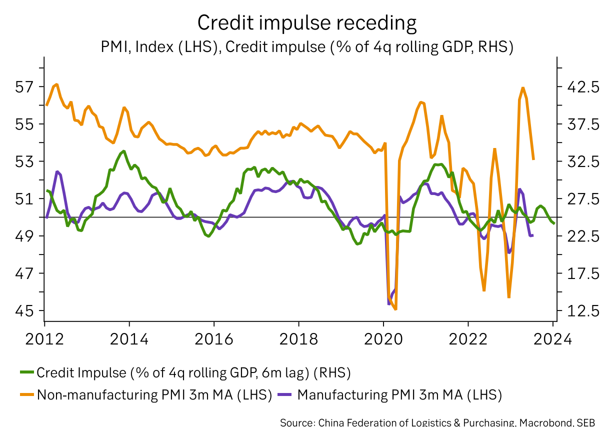
Households remain unwilling to spend enough to boost growth. Although retail sales grew relatively robustly on annual basis earlier this year, the weakness in household spending is evident in consumer prices. Annual headline inflation slipped into negative territory in July, and core inflation has remained well below 1 per cent since early 2023. Meanwhile, youth unemployment has hit record highs, driven by a mismatch between increased demand and supply of skilled workers. Household bank deposits have increased dramatically since the beginning of the pandemic. Authorities have so far remained unwilling to provide direct transfers to household similar to EU and US fiscal policies.

Credit impulse has tapered off. What looked like a larger credit impulse earlier in 2023 has now tapered off a bit, and money growth continues to surpass loan growth. July credit data show that demand remains weak despite loose liquidity conditions; monetary policy is less effective in boosting growth than in the past. Infrastructure investments have remained soft, reflecting the uncertain situation facing local authorities and the challenges to the central government of orchestrating a boost in the sector. Local governments need debt restructuring. While this is ongoing, a big growth push looks unlikely.

Real estate sector remains in turmoil. Whereas there have been some signs of stabilisation in the real estate sector, it remains mired in debt and oversupply. Private developers are still considered too risky by homebuyers compared to government-owned developers, and an expected consolidation in the sector has so far been delayed. Ongoing concerns over the state of the developer Country Garden underscore that the real estate sector is still not out of the woods and remains an unlikely conduit for economic activity in the near term.

Credit impulse receding

PMI, Index (LHS), Credit impulse (% of 4q rolling GDP, RHS)



Source: China Federation of Logistics & Purchasing, Macrobond, SEB

Beijing's preference for targeted stimulus shows growth taking a back seat for now. Policy statements indicate that the absence of a big fiscal or monetary stimulus reflects a preference for piecemeal measures. Even with our lower forecast, China looks set to meet its growth target of 5 per cent this year. The People's Bank of China (PBoC) unexpectedly cut some key interest rates amidst renewed stress in the real estate sector. Despite recent currency weakness, we expect the yuan to appreciate towards 7.1 per USD by year-end.

Emerging markets
Unwinding of tight policies, amid geopolitical risks

Emerging market economies look set to slow further in 2023 due to weaker global demand and tighter financial conditions. India's recovery has softened, but long-term growth looks resilient. Brazil's upturn has strengthened but faces domestic demand challenges. Geopolitical risks will haunt EM economies as the Sino-US rivalry spreads and intensifies, and as fallout from Russia's invasion of Ukraine puts EM countries in a bind over relations with both China and Russia.

Continued slowdown. Major EM economies excluding China will continue to slow this year due to weaker global demand and tighter financial conditions, continued high and rising interest rates and a strong US dollar. We expect the USD to lose value and interest rates to fall. There will thus be less risk of acute debt stress in EM economies exposed to large USD loans. Falling energy and commodity prices have recently levelled the playing field somewhat between commodity exporters and other EM countries. A slower-growing China lowers overall EM growth, which will reach 4 per cent in both 2023 and 2024. EM economies were ahead of advanced economies in raising key rates during the pandemic and look set to lead the easing cycle as well.

Key data
GDP, year-on-year percentage change

	2022	2023	2024	2025
Emerging markets	3.6	4.0	4.0	4.1
India (fiscal year)	6.7	6.3	6.4	6.2
Brazil	2.9	2.1	1.6	2.0

Source: IMF, SEB

Structural factors look set to boost Indian growth, but slowing global demand and higher interest rates appear likely to stall the current recovery somewhat. In the longer term a demographic dividend boosting the manufacturing sector, subsidies and geopolitics favourable to India imply that global GDP growth will be increasingly driven by India. The Reserve Bank will likely remain on hold with a key rate of 6.5 per cent until December, before starting an easing cycle in Q1 of 2024. Inflation has recently surprised on the upside. Rising capital flows will likely serve as a counterweight to a smaller interest rate differential relative to the US Fed.

GDP growth in Brazil started strong this year. Despite stronger-than-expected headline growth, there is evidence that domestic demand is losing some steam. It may benefit from forthcoming monetary easing -- but because of the lagging impact of rate cuts, most of the effect will come only in 2024. We expect GDP growth of 2.1 per cent this year and 1.6 per cent in 2024. The central bank finally started to unwind its tight monetary policy in August, and while the decision was not unanimous the accompanying statement indicated a dovish tilt going forward. We expect half-point cuts at each of the three remaining policy meetings this year.

Geopolitical risks will haunt EM countries during our forecast period. Except for India, which stands to benefit significantly from the geopolitical conflict between China and the US and the fallout from Russia's invasion of Ukraine, several other EM countries risk being adversely affected as the rhetoric and foreign policies of the two great powers harden. Export and investment controls enacted by the US are putting many East Asian high-tech exporters in a difficult situation. Countries like Brazil and South Africa have come under pressure from the US to reduce ties with both China and Russia, and combative public statements by US officials earlier this year sent South African financial assets reeling.

Growing worries about sanctions. Concerns over secondary sanctions targeted toward relations with Russia have increased, and not just in China. The sanctioning of the former Lebanese central bank governor for alleged corruption was also a reminder that the US retains the ability to target individuals worldwide for undermining democratic processes or contributing to the breakdown of the rule of law. A BRICS summit (Brazil, Russia, India, China and South Africa) in South Africa in late August agreed to expand the five-nation bloc to include six new members and discussed global geopolitics, trade and infrastructure development. There were few major policy outcomes, but the BRICS countries share an interest in diversifying away from the dollar and increasing foreign policy autonomy from the US and EU.

The euro area
A moderate recovery over the next couple of years

It is becoming increasingly clear that high inflation and rising interest rates will finally slow economic activity in the euro area. We expect GDP to essentially stagnate during the rest of 2023, making growth weak this year even if a major slump is avoided. The decline in inflation is becoming more pronounced, though core inflation is falling far more slowly. We believe that the European Central Bank (ECB) has finished hiking key rates and that it will start cutting them by the middle of 2024.

In 2022 the euro area economies showed good resilience to energy troubles, high inflation and rising interest rates, but by year-end it became clearer that households and businesses (especially energy-intensive ones) were being more and more adversely affected. Growth has been sustained by a relatively strong service sector, but recent indicators are pointing to a weaker development in that sector too. Despite better-performing global value chains and lower transport prices, the situation in manufacturing is gloomy, particularly in Germany, where indicators for the near future are at levels in line with those of the pandemic and the global financial crisis. All metrics of economic activity indicate falling GDP in the near term.

Key data

Year-on-year percentage change

	2022	2023	2024	2025
GDP	3.4	0.6	0.8	2.0
Unemployment*	6.7	6.5	7.0	7.0
Wages and salaries	4.3	5.3	4.3	3.3
CPI	8.4	5.5	1.0	1.2
Public sector balance**	-3.6	-3.5	-2.7	-2.4
Public sector debt**	91.5	89.4	88.2	87.1
Deposit rate, %***	2.00	3.75	3.00	2.50

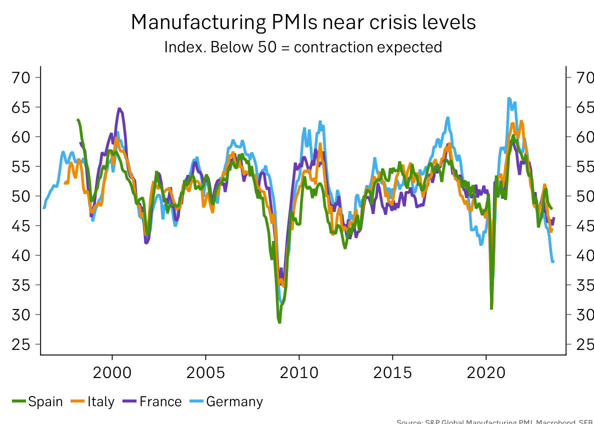
*% of labour force **% of GDP ***At year-end. Source: Eurostat, SEB

Weak growth this year, and no strong recovery in sight. Early in 2023, it became increasingly clear that growth in the euro area was decelerating, but that there are variations between countries. For example, in manufacturing-dependent Germany, GDP has fallen. Meanwhile Spain has shown relatively high growth rates due to a strong service sector. We believe surprisingly strong growth in the second quarter is temporary and forecast that the euro area economy will essentially stagnate during the rest of 2023, thus limiting this year's growth to 0.6 per cent. Because of falling inflation, the end of the ECB's key interest rate hiking cycle, increased investments related to the green transition and digitisation and rising international demand, growth will start to pick up again in the first half of next year, but at a moderate pace. GDP will rise by a modest 0.8 per cent in 2024 and 2.0 per cent in 2025, and euro area GDP will not reach its trend level during our forecast period.

Consumers will take the hit. High inflation and rising interest rates have hurt consumption, which has not fallen even further partly due to strong labour markets. During the COVID-19 pandemic, household savings also increased to high levels. The savings ratio is beginning to approach its historical average, and we believe that savings are still at levels that will support consumption to some extent. Fiscal measures to soften the impact of high electricity prices have also supported households and businesses, but these will be scaled back to avoid fuelling additional demand and to meet the deficit and debt criteria of the European Union's Stability and Growth Pact. We expect fiscal policy to be moderately tightened in the next couple of years. Overall, we believe that households will remain under pressure. Although consumption will start to increase late this year, the recovery will be slow, reaching just above pandemic level by the end of 2025, which is one of the main explanations for our weak GDP growth forecast. Wage and salary growth, which is high in a historical perspective, is not expected to be sufficient to lift consumption significantly.

The manufacturing sector is struggling, and the service sector is also starting to slow down. Manufacturing activity is weak, and indicators such as purchasing managers' indices (PMIs) show falling output. The situation is worst in Germany, where the manufacturing sector is being hurt by lower global demand and structural challenges, for example in the vital automotive industry. Energy-intensive sectors have also been hit hard by high electricity prices. The manufacturing sector's share of GDP is higher in Germany (almost 27 per cent in 2022) than in France (17 per cent) and Spain (21 per cent), which is why Germany is being particularly hard hit by deteriorating industrial activity. The construction sector has been hit hard by the higher interest rates. The service sector has

performed much better, especially in areas that were especially vulnerable during the pandemic, such as hotels and restaurants. Demand for labour in these areas has been high and has hampered growth. However, recent indicators point to a slowdown in the service sector as well. It is becoming increasingly clear that high prices and interest rates are having a broad impact on the economy.



Unemployment will rise going forward. Euro area labour markets have been strong and have weathered increasingly subdued economic growth smoothly. This has mainly been due to the high level of activity in the service sector. PMI employment indices, for example, now indicate a short-term deterioration in labour markets. Companies have largely kept employees on the payroll to avoid the risk of problems in recruiting people with the right skills when the economy eventually rebounds, which happened when businesses reopened after the pandemic. Partly because they are choosing to retain employees despite weak and falling growth, unemployment will not rise as much during our forecast period as would otherwise be the case. In countries such as Germany, it is more common for average working hours to decrease during downturns, since employees in adversely affected sectors may end up in “short-time work” programmes instead of becoming unemployed.

Ahead of next winter, risks remain. A mild climate and ample natural gas reserves were among the reasons why the euro area was not as badly affected by the energy crisis of last autumn and winter as markets had feared. Although gas reserves are now high for the season, a cold winter may still be problematic, and reserves may be depleted quickly. Energy prices have come down, but they are still at high levels. Minor disruptions in supplies may quickly make the market nervous, leading to higher prices. There is a risk that an energy price upturn this autumn and winter may keep inflation from falling as expected and may worsen problems in energy-intensive sectors.

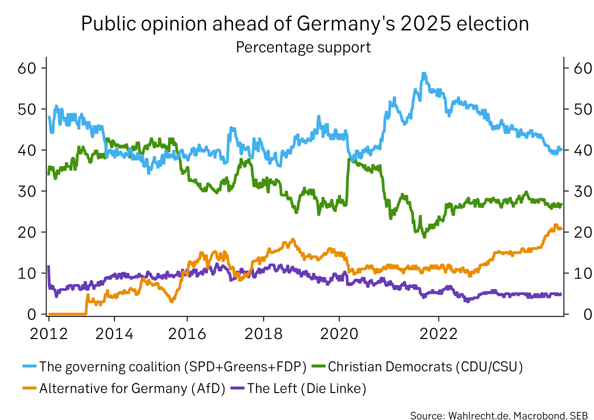
GDP growth forecasts

Year-on-year percentage change

	2022	2023	2024	2025
Germany	1.8	-0.4	0.8	1.9
France	2.5	0.7	0.8	1.8
Italy	3.8	0.8	0.7	1.6
Spain	5.5	2.1	1.4	2.0
Euro area	3.4	0.6	0.8	2.0

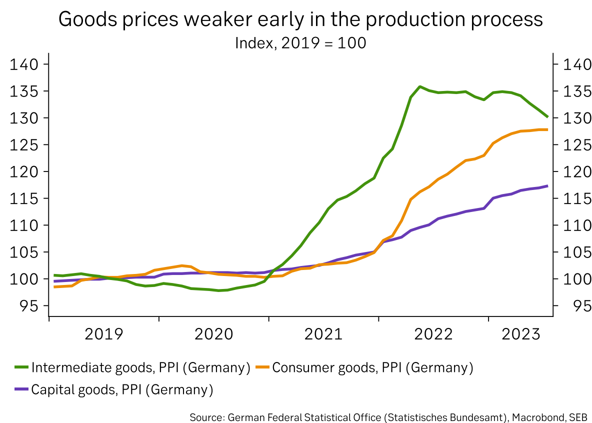
Source: Eurostat, SEB

Risk of increased domestic political turbulence. It has been a challenging year politically in several major euro area economies, including growing public dissatisfaction with high prices, insufficient pay increases and indecision about energy solutions. There have been rapid wage and salary hikes, but these have not been high enough to fully compensate for inflation. Strikes have been common during 2023, both in Germany and France. The situation in Germany has also been complicated by major disagreements within the “traffic light coalition” (Ampelkoalition) government, consisting of the Social Democrats (SPD), Green Party (Die Grüne) and Liberals (FDP), centred on legislative proposals about heating, but also on the direction of economic policy. The high level of discord and the failure to pass important bills has increased public discontent and has given a boost to the xenophobic Alternative for Germany (AfD) party in various opinion polls.



There is a risk that the government’s difficulties in agreeing on various legislative proposals will delay business investments and household consumption. Meanwhile Germany has a great need for capital spending, especially in green energy, AI and digitisation, both to meet the necessary climate transition and to deal with the labour shortage that results from an ageing population. Spain is currently trying to form a

government after its elections in July. Meanwhile the country holds the Presidency of the EU Council of Ministers and is thus responsible for planning and directing work on such important issues as the green transition and the promotion of social and economic justice.

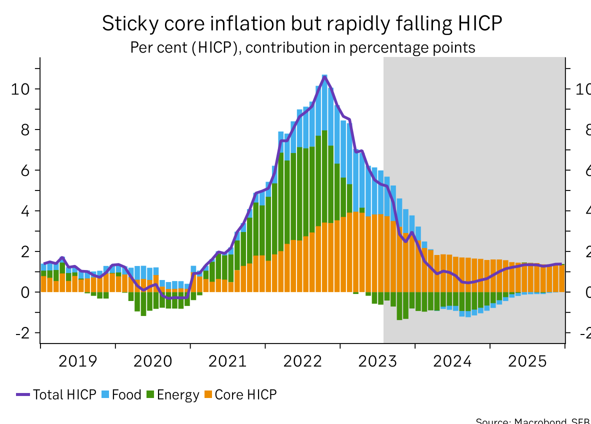


Core inflation is crucial for the ECB

Inflation is now clearly on its way down, driven by lower energy prices and large base effects from last year. Several measures enacted during the energy crisis are being scaled back, which will also help inflation return to the ECB's target. However, prices are continuing to climb from a high level, though somewhat more slowly, and are hitting consumers hard. Core inflation — excluding energy and food prices — has proved significantly stickier than headline inflation, partly because strong wage pressures are sustaining the rate of increase in some service prices.

The decline in core inflation is slow. Because of the increasingly negative contribution of energy prices to inflation, the focus of central banks has instead shifted to price increases that are spreading to broader parts of the consumer basket and having a greater impact on core inflation. Prices that move up and down sharply (such as energy and food) are quickly reflected in CPI, while rents and wages, for example, are much less volatile. In the euro area, intermediate and other upstream prices rose much earlier and faster than downstream prices. Producer prices for intermediate goods appear to have peaked, even showing negative movements. This picture is also consistent with price expectations according to purchasing managers' indices, which signal continued price downturns for intermediate goods. The same trend is not yet visible for consumer goods at the producer level, indicating that there are still price increases in the system and that it will take more time before they reach end consumers. The decline in core inflation is thus taking place with a time lag and will only occur after this summer.

Wages and service prices are vital to the ECB. There is considerable uncertainty about the inflation slowdown, largely due to rapid wage growth and rising service prices, which will be crucial to inflation dynamics over time. The rate of wage growth is forcing the ECB to be on its toes to counter any form of contagion risk that may threaten its inflation target in the long term. We expect euro area wages and salaries to increase by 5.3 per cent this year, 4.3 per cent in 2024 and 3.3 per cent in 2025. From a historical perspective, wage growth is very rapid, especially since productivity growth is expected to remain moderate over the next few years. The decline in core inflation will thus take time, ending up around the ECB inflation target during the first half of 2025.



ECB is keeping the door open for a September rate hike. Incoming statistics will be crucial for ECB interest rate policy, especially CPI statistics but also such indicators as PMIs and Germany's Ifo survey. If recent weak PMI figures persist, showing further signs of weakness ahead of the ECB's September policy meeting – combined with continued falling inflation – this may result in a more cautious approach by the ECB this autumn. But more sluggish core inflation and relatively high wage pressures remain the main arguments in favour of further key interest rate hikes. Our assessment is that the July hike was the last for this interest rate cycle, but we believe that the ECB is keeping the door open for another hike in September. The Governing Council also pointed out at its July meeting that any pause in September might well be followed by a subsequent rate increase if deemed necessary. Once the signs of a more pronounced disinflationary trend begin to emerge, along with a continued economic slowdown, the ECB will begin to cut interest rates. We estimate that the key rate will be cut by a total of 75 basis points in 2024. In 2025 it will end up slightly above what can be regarded as a neutral level.

Theme:

Green subsidies

Steps in the right direction, but obstacles along the way

Both the US and the EU have presented packages of measures to meet their established climate goals. The US is viewed as having gone somewhat further with subsidies and tax credits for households and businesses. In the EU there are now fears of an exodus of companies to the US. Meanwhile critical links in supply chains must be secured. Although their proposals differ somewhat, both the US and the EU face the same challenge – scaling up green production and securing access to strategic raw materials to reduce dependence on China.

A flying start for the IRA. One year has passed since the Biden administration unveiled its misleadingly named climate package, the Inflation Reduction Act (IRA). The White House and outside actors have begun to evaluate its impact. Putting a price on greenhouse gas emissions via taxes or fees would probably have been most effective but is politically indigestible in the United States. According to the OECD, the US has the lowest environmental taxes in the G7: half the OECD average, which is 1.4 per cent of GDP. The idea behind the IRA has instead been to mobilise private capital for the green transition through subsidies and tax credits to companies and households, laying the foundation for green industry in the US. This strategy initially seems to be working. The White House says nearly 200 new projects totalling USD 110 billion (nearly 0.5 per cent of GDP) have been unveiled since the launch of the IRA, of which over USD 70 billion for electric vehicle production and over USD 10 billion for solar energy. Last year's Infrastructure Investment and Jobs Act (IIJA) also has climate-related elements.

Crucial to meeting US climate goals. The White House estimates that the IRA will help achieve a 40 per cent reduction in carbon dioxide emissions by 2030 (from 2005 levels), which is roughly in line with external estimates. However, further action will be needed to reach the US target of halving emissions. The IRA is, above all, unique in its scope. Tax credits for renewable energy investments were launched periodically even before the IRA, and greenhouse gas emissions have risen more slowly than GDP over the past decade, among other things thanks to decreased use of coal in energy production and energy efficiency improvements.

Challenges and partly conflicting goals. The expansion of large-scale green energy facilities, such as wind farms, is being delayed by slow permitting processes. The infrastructure for electricity transmission is insufficient. Both Democrats and Republicans want to speed up permitting, but the issue is controversial, partly because a reform would also speed up fossil energy permitting. The Biden administration's high domestic content requirement creates problems in green production chains. The background is both security policy (reducing dependence on China) and protectionism (supporting US industry). In the short term, it may be hard to find replacements for critical minerals, for example, which are vital to battery manufacturing and where China dominates supply. Rules on wages and locating facilities in disadvantaged areas also complicate matters.

Much more costly. The IRA is intended to be nearly fully funded and burden the federal budget only to a limited extent. However, according to external estimates the costs may prove significantly higher than planned. An analysis by Fed economist Neil Mehrotra and others foresees costs in the range of USD 900 billion over the 10 years of the reform – more than double the White House's estimate of nearly USD 400 billion. The University of Pennsylvania's Wharton Budget Model has revised its forecast upward to over USD 1 trillion. Goldman Sachs estimates the price tag at as much as USD 1.2 trillion. A key reason is that IRA subsidies – such as for electric vehicles, new green technologies like carbon capture and green power generation – are demand-driven, since there is no cap on the tax rebates.

Small macroeconomic impact. Despite higher costs, it is estimated that the IRA will have only a limited impact on total capital spending and on the economy as a whole – reflecting the energy sector's small share of the US economy. The Mehrotra study draws a parallel to the expansion of shale oil after 2010 and its subsequent downturn in 2015, which in both cases left only small footprints. Mehrotra's study also concludes that the societal benefits of reduced carbon dioxide emissions outweigh the costs of the reform. Yet the fact that the IRA coincides in time with Biden's infrastructure and semiconductor (CHIPS) packages means that the reforms, including upstream effects on manufacturing, should have some positive impact on the economy.

Inflation has fallen, but not thanks to the IRA. The package includes reforms to lower pharmaceutical prices and is expected to put downward pressure on electricity prices but has meanwhile further stimulated investment and employment. The Inflation Reduction Act has thus hardly lived up to its name.

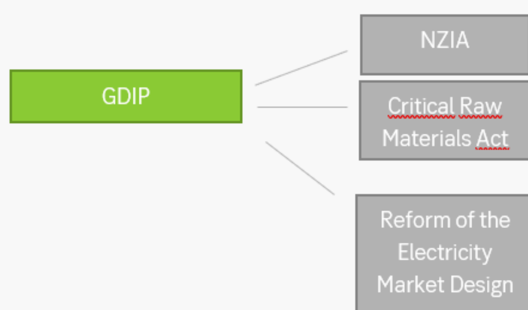
Can IRA survive the 2024 election? The Republicans have maintained their fierce opposition to the IRA, even though a large proportion of its projects have ended up in "red" states. The IRA is based on carrots and private initiatives, making it harder both legally and in terms of public opinion to reverse the reforms. A change of power in the White House and/or Congress in the 2024 election may slow new investments and funding via public authorities but is unlikely to stop investments that have already been made or started.

Europe – moving towards a key legislative proposal. The Green Deal Industrial Plan (GDIP), an updated version of the European Green Deal, was presented on February 1, 2023 by the EU Commission in direct response to the US IRA. But it is also viewed as part of the EU's strategy to achieve its net-zero emissions target by 2050 (with the interim target of a 55 per cent cut in greenhouse gas emissions by 2030 compared to 1990 levels). The GDIP aims to relax EU competition rules to increase subsidies to green tech companies, but also to strategically create energy independence. Russia's invasion of Ukraine has reinforced one of the lessons learned during the pandemic: the EU cannot rely on a single supplier for essential materials. China is a key player since it processes almost 90 per cent of the rare earth elements crucial for the green transition and produces 60 per cent of lithium, a key ingredient for batteries. There is potential for extracting rare earth elements within the EU, for example LKAB's discovery in the Kiruna area of northern Sweden.

The GDIP builds on earlier initiatives and complements already ongoing efforts under the European Green Deal and REPowerEU. The proposal is based on four pillars: a predictable and simplified regulatory framework, faster access to funding (through a new supranational EU fund and reallocation of existing EU funds), ensuring and increasing green technology skills and open trade for resilient supply chains. In March, the EU Commission

presented new concrete proposals; the Net-Zero Industry Act (NZIA) and the Critical Raw Materials Act (CRMA), as well as electricity market reforms. NZIA will strengthen the availability of net-zero technologies and scale up manufacturing capacity in the EU. Investments will primarily be made in technologies that reduce carbon dioxide emissions and include, for example, solar and wind-generated energy, batteries, energy storage and heat pumps. The proposal also sets the objective that EU manufacturers should meet at least 40 per cent of the Union's green tech needs by 2030. The CRMA will ensure access to rare earth elements, which are crucial to the transition. Among other things, no more than 65 per cent of annual EU imports of a strategic raw material shall come from a single country. Electricity market reforms are needed to ensure that consumers benefit from the lower costs of renewable energy.

No decisions from the EU yet. The NZIA is supposed to be voted through before the end of the year, but both the European Parliament and the Council of Ministers must agree on its provisions before it becomes law.



Similar yet different. Both the IRA and the GDIP include major investments in green energy transition, which is positive for combating climate change. For example, both packages include similar subsidies for electric vehicles, clean-tech manufacturing and renewable energy (where the EU amount is significantly bigger than the US amount). Both initiatives aim to diversify strategic supply chains of key raw materials and ultimately become fully self-sufficient in energy. One difference is that EU industrial policy is mainly intended to be financed from funds, while the IRA is paid for directly by the federal budget.

Moving in the right direction, but obvious shortcomings. The GDIP and NZIA represent investments in green technologies that will create innovation and new jobs and generate higher profits for green tech companies. Despite headwinds from rapid inflation and high interest rates, capital spending is expected to be boosted by investments in green energy, although it is difficult to estimate the amounts. Although these proposals are steps in the right direction, there are obvious shortcomings. Critics of the GDIP and NZIA argue that there is a lack of well-designed goals and adequate resources to scale up the production of clean technology in the EU, something that the IRA does more clearly. Furthermore, the NZIA only includes technologies related to energy supply. Critics want to see a broadening of the proposal to include companies throughout the green transition value chain. The lack of new joint public funding has also been highlighted. The previous plan for a new supranational fund to finance the green transition has still not been unveiled. Instead, the money will come from existing funds (such as EUR 250 billion from REPowerEU, EUR 225 billion from the Recovery and Resilience Plan and EUR 210 billion from Germany's Climate and Transformation Fund).

Different countries – different potential. There will also be a lot of scope for investments that burden the budgets of individual countries, which means that different rules of the game will apply to EU countries. For example, Germany can afford more, and larger subsidies compared to countries with more limited fiscal manoeuvring room. The German government's pledge of EUR 5 billion in subsidies to one of the world's leading manufacturers of advanced chips, Taiwanese TSMC, to build a plant in Dresden costing EUR 10 billion, is one example from this summer. Although the investment is justified in order to secure an important link in the supply chain, it illustrates how EU industrial policy instead risks becoming national industrial policy, which may increase tensions within the EU. Finally, in both the US and the EU the programmes risk increasing already high inflation and thus also interest rates.

No trade war between the EU and the US. The IRA and the GDIP are both steps towards a green transition and the opportunity to achieve established climate goals. However, this new industrial policy has led to discussion about increased protectionist elements. In particular, the IRA's "*Made in America"* rules for the manufacture of battery components have been heavily criticised. Although the EU has responded to the IRA with its own proposals, the US and the EU are major partners. Tensions have increased, but a trade war is unlikely. That would have far too great an economic impact. Instead, the US and the EU will probably continue discussions about the importance of good relations and cooperation as well as increased future trade in green technology. For both the US and the EU, the importance of securing the right skills will be crucial for the green transition, something that should also be a high priority on the agendas of both political leaders and companies.

The United Kingdom
Continued headwinds

After a stronger-than-expected start to the year, the UK economy still faces major challenges. Households are being hurt by high inflation and rising interest rates, while rising government borrowing costs are reducing the scope for fiscal stimulus. A continued tight labour market is pushing up wages and salaries, sustaining underlying inflation. The Bank of England will raise its key interest rate to 5.75 per cent and will begin rate cuts during the second half of 2024.

This year started on an unexpectedly positive note, helped by a strong labour market and lower energy prices. But labour shortages are leading to rapid wage growth, and UK inflation remains high. Meanwhile there are various long-term challenges – such as weak productivity growth, stagnant capital spending and declining labour market participation. High inflation and rising interest rates are putting pressure on household real incomes, and growth is expected to be slow both this year and in 2024. GDP will rise by 0.1 per cent in 2023, compared to an increase of 4.1 per cent in 2022. International demand and improved real purchasing power will lift growth to 0.5 per cent in 2024. By 2025, inflation and interest rates will have fallen, contributing to a 1.8 per cent upturn in GDP. Compared to the current situation, unemployment is expected to rise by nearly 1 percentage point by the end of 2025.

Key data
Year-on-year percentage change

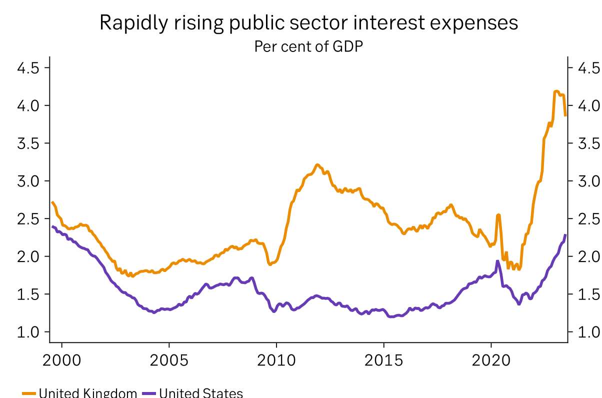
	2022	2023	2024	2025
GDP	4.1	0.1	0.5	1.8
Unemployment*	4.1	4.0	4.5	4.8
Wages and salaries	5.9	6.0	3.5	3.5
CPI	9.1	7.6	3.5	2,2
Public sector balance**	-6.3	-5.8	-4.4	-4.2
Public sector debt**	103	106	110	113
Key interest rate, %***	3.50	5.75	4.75	3.25

*% of labour force **% of GDP ***At year-end. Source: IMF, ONS, SEB

Tight labour market conditions. The labour supply is shrinking. Meanwhile strikes demanding higher compensation for inflation are expected to continue. The labour market situation thus remains tense in the wake of Brexit and the pandemic. Labour shortages, a rapidly ageing population and a shortage of structural public and private investments are slowing growth.

High borrowing costs limit the scope for fiscal stimulus. The UK government has high interest expenditures, and a large proportion of its debt consists of inflation-linked bonds. To curb high inflation, the Bank of England (BoE) has hiked key interest rates and started to reduce its bond holdings. These actions have resulted in large losses for the central bank: costs that are reimbursed by the government and will likely need to be financed by increased borrowing. The combination of rising interest rates and high inflation is thus reducing the scope for much-needed fiscal stimulus in various ways. The budget deficit is expected to be 5.8 per cent of GDP this year and 4.4 per cent in 2024; public debt as a share of GDP will reach 113 per cent by the end of 2025.

Rapidly rising public sector interest expenses
Per cent of GDP



Source: U.K. Office for National Statistics (ONS), Macrobond, SEB

Stubbornly high inflation. Lower energy prices are expected to contribute to a near-term decline in inflation, while weakening economic activity and an easing of pressure on global value chains are leading to lower goods inflation. Although we expect inflation to fall significantly in the coming months, underlying inflation is being sustained by the tight labour market. During 2024, inflation will fall sharply but will remain at 2.6 per cent by year-end. We expect an average of 7.6 per cent in 2023.

Rising wages and excessive inflation are putting pressure on the BoE. Our forecast is that the central bank will hike its key interest rate for the last time in September to 5.75 per cent. Rate cuts will begin in the second half of 2024, with the key rate gradually being lowered to 4.75 per cent by the end of 2024 and 3.25 per cent by the end of 2025.

The Nordics

Sweden | page 36

The Riksbank is squeezed by a weak krona, but thanks to falling inflation, its September hike will likely be the last. After a cautious 2024 budget, looser fiscal policy will fuel a recovery in 2025 due to robust government finances.

Norway | page 44

We expect higher interest rates, weak real income and rising unemployment to weigh on private consumption and home prices. High oil sector investments will prevent outright recession, but economic growth will be weak in 2024..

Denmark | page 46

Household consumption is recovering, supported by strong employment and improved lending conditions. Signs of stabilisation in the housing market are also encouraging. We now foresee a prolonged soft landing for the Danish economy.

Finland | page 48

The manufacturing sector has performed well, and exports are the most resilient part of the Finnish economy, contributing positively to growth. However, low general demand will lead to a 0.3 per cent decline in GDP this year.

Sweden
Continued downturn but reduced risks

Downside risks have decreased, but due to weak households and a sharp decline in residential construction we will see a clear drop in GDP and rising unemployment this year. The Riksbank is being squeezed by a weak krona exchange rate, but falling inflation suggests that its key rate hike in September will be the last. The government will remain cautious about fiscal policy next year, but strong central government finances will allow a more expansionary policy and a stronger recovery in 2025.

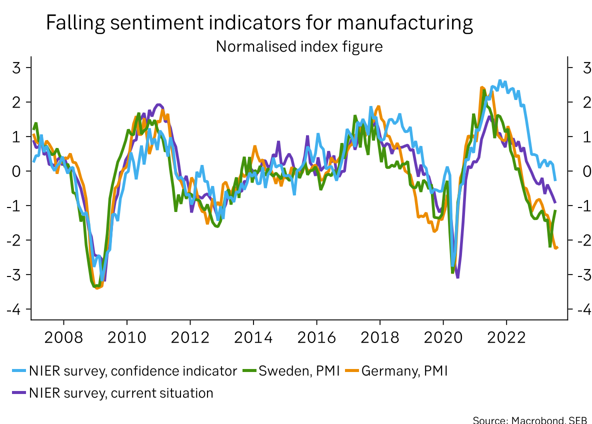
The economic picture remains mixed, but after a weak second quarter of 2023 and a renewed decline in business confidence, our forecast from the May issue of *Nordic Outlook* looks largely reasonable. We expect GDP to shrink by 1.2 per cent this year and grow by 0.1 per cent in 2024, a few tenths per year below our May estimates. In 2025, growth will accelerate to 2.5 per cent, a bit above the historical trend. Sweden will continue to look more anaemic than many other countries. Stronger international conditions and falling inflation will set the stage for a gradual recovery in 2024. The government will continue its cautious fiscal policy. We expect reforms equivalent to just over 0.6 per cent of GDP in the budget for 2024. Falling inflation will pave the way for a sizeable fiscal stimulus in 2025. The Riksbank will hike its key interest rate one last time in September and start gradually cutting rates in mid-year 2024. By end-2025, the policy rate will be 2.5 per cent.

Key data

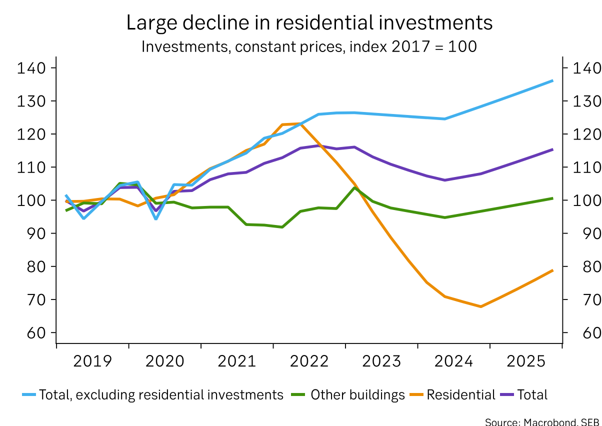
Year-on-year percentage change

	2022	2023	2024	2025
GDP	2.6	-1.2	0.1	2.5
Unemployment*	7.5	7.5	8.3	8.4
Wages and salaries	2.7	4.1	3.9	3.5
CPIF	7.7	5.9	2.5	1.8
Net lending**	0.8	0.0	-2.2	-0.5
General gov't debt **	32.8	31.6	33.7	33.7
Policy rate, %***	2.50	4.00	3.50	2.50

*% of labour force **% of GDP ***At year-end. Source: IMF, ONS, SEB

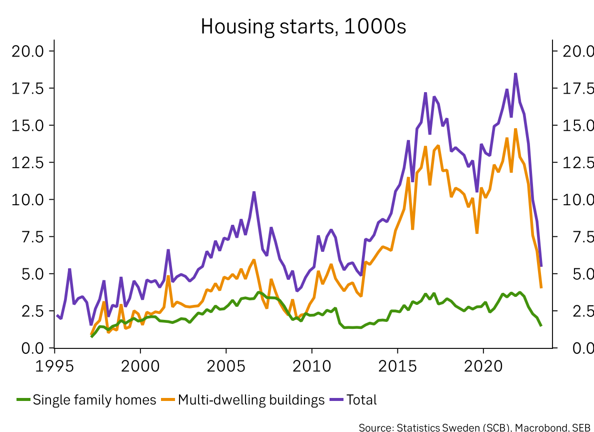


Increasing headwinds for industry despite a weak krona. Manufacturing sector indicators are mixed. The National Institute of Economic Research (NIER) manufacturing index still indicates some growth, despite rather large declines, but since the end of 2022, the purchasing managers' index (PMI) has been at levels that indicate falling production. After a slight upward trend last spring, exports and industrial production declined clearly in June. Individual monthly outcomes should not be over-interpreted, but sentiment according to both the NIER survey and PMI suggests that the downturn will continue. One worrying factor is that manufacturing PMI in Germany has fallen to around 40. Germany is the largest recipient of Swedish merchandise exports, and a deeper downturn there would have a major impact on Sweden. The weak krona provides some support, but not enough to avoid a downturn if economic activity weakens abroad, especially in important Swedish export markets.



Sharp drop in residential construction. Manufacturing sector capital spending has held up relatively well. For example, machinery investments in Q1 were 5-10 per cent higher than a year earlier. However, increased uncertainty and weaker economic activity will lead to a decline in industrial investments this year. Total capital spending is dominated by a sharp drop in residential investments. After another large decline in housing

starts during Q2, the downturn looks set to be even bigger than we anticipated in May. We expect residential investments to decline by almost 50 per cent by the fourth quarter of 2024. A gradual recovery will begin only in 2025. Support for construction, such as reduced value-added tax, higher tax deductions on renovations or even direct subsidies cannot be ruled out, although politically this is a long way off. This could help soften the downturn. Overall capital spending will fall by about 3 per cent this year and 4 per cent in 2024, then rebound by 4 per cent in 2025.



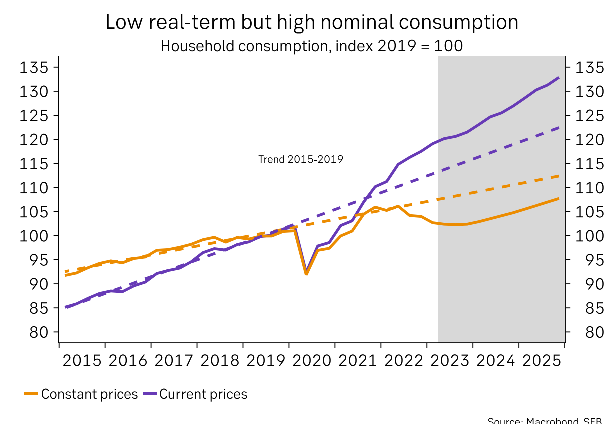
Large fall in consumption despite resilient households. How Swedish households react to sharply rising costs and higher interest rates will determine the depth of the economic downturn. Until the first quarter of 2023, real consumption had fallen by just over 3 per cent. There are many indications that this downturn has continued. We expect consumption to fall by a total of over 4 per cent, which is a large downturn and historically in line with the declines during the deep recessions of the early 1980s and 1990s. During these downturns, nominal household consumption tended to fall or slow significantly, although high inflation was an important component during these periods too. But during the current slowdown, households have continued to increase already high nominal consumption by reducing their savings.

Household income and savings ratio
Year-on-year percentage change

	2022	2023	2024	2025
Real disposable income	0.7	-2.8	1.9	2.3
Private consumption	2.1	-2.6	1.4	2.7
Savings ratio, % of income	13.9	12.9	14.8	14.6

Source: Statistics Sweden, SEB

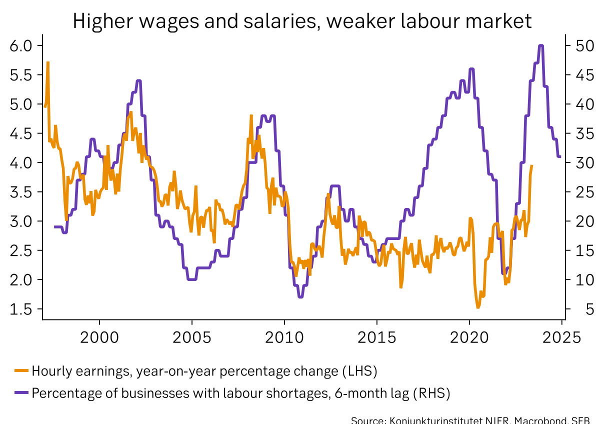
Can household spending increase even more? There is great uncertainty as to whether households will continue to increase their spending. Consumer confidence has recovered since the beginning of 2023 but remains significantly lower than at any time since the early 1990s. Decelerating inflation and the fact that we will soon reach the Riksbank's interest rate peak suggest that the risks of a deeper decline in consumption have decreased. Because of falling inflation, real wages will probably increase somewhat during the second half of 2023.



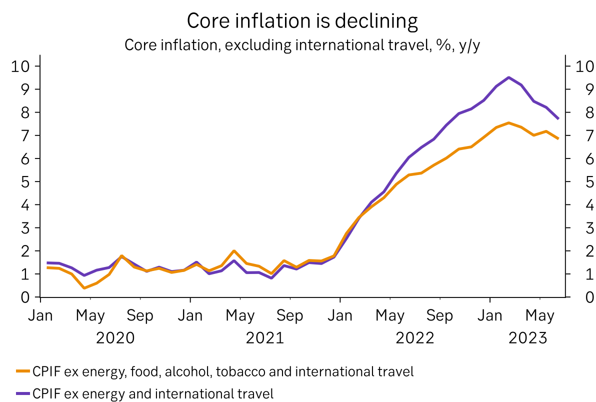
New but milder home price declines can be expected. The stabilisation in home prices is providing further support to household resilience. According to SEB's weighting of house and flat prices from estate agents (Mäklarstatistik), home prices have risen by around slightly less than one per cent since the start of 2023 and are just over 10 per cent below their peak in early 2022. We believe that prices will fall again this autumn, and we expect a total price decline of 15-20 per cent. The SEB Housing Price Indicator points to continued stable prices in the near term. Despite an upturn, they remain below the historical average, which is an upside risk to this assessment.

The labour market continues to weaken from a high level. The labour market will be a decisive factor in determining future household consumption. So far, sentiment indicators and employment trends both point to a moderate deceleration. However, after a period of stabilisation, some indicators such as recruitment plans in the NIER survey have turned lower again. We believe that this downturn will continue, and we expect slightly falling employment during 2024. The jobless rate rose to nearly 8 per cent in June, partly driven by higher labour supply. Because of a strong seasonal pattern, unemployment can often be volatile during the summer. We believe that the June figure exaggerates the underlying trend. But unemployment is rising, and our May forecast of an increase to just over 8.5 per cent in 2024 still seems reasonable. Towards the end of our forecast period, unemployment will shrink again.

Declining real wages, despite pay hikes, are creating greater uncertainty. The collective wage and salary agreements concluded last spring have now begun to show up in the statistics. So far, total hourly wages are increasing in line with the Riksbank's and our own estimates. However, wage statistics for the past few months are preliminary and it will take more time before the situation becomes clearer. Because of the sluggish decline in inflation, the risk of increased wage demands before the current agreements expire in spring 2025 cannot be ruled out. However, they are unlikely to be torn up, and regulations make it difficult for unions to strike before these agreements expire. Pay increases above contractual levels cannot be ruled out either, but the NIER survey shows that labour shortages are continuing to shrink, although they remain above average. There are many indications that wages and salaries will increase by an average of about 4 per cent annually over the next two years. It is too early to speculate on what the next national wage round in 2025 will look like, but it is important that real wages recover some of their big decline during 2022 and 2023.



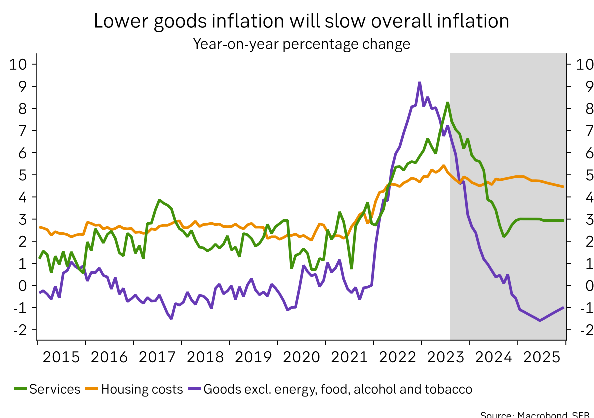
Core inflation will fall faster this autumn and winter. Due to falling energy prices, CPIF (CPI with constant interest rates) has quickly fallen from above 10 per cent at the end of 2022 to 6.4 per cent in July this year. Due to lower electricity prices and base effects, the CPIF looks likely to end up close to 2 per cent as early as December, albeit temporarily. We expect energy prices to continue helping to slow inflation in 2024 and 2025, due to slightly falling electricity prices and smaller greenhouse gas reduction requirements on diesel and petrol. However, there is great uncertainty about both market prices for energy and the reduction requirements. CPIF excluding energy fell to 8.0 per cent, nearly 1.5 percentage points below its peak level in February. So far, the decline has been sluggish – partly due to temporary upward pressure from international travel during the summer. There are many indications that underlying inflation will begin to fall significantly faster as early as August, driven by base effects from food and other goods.



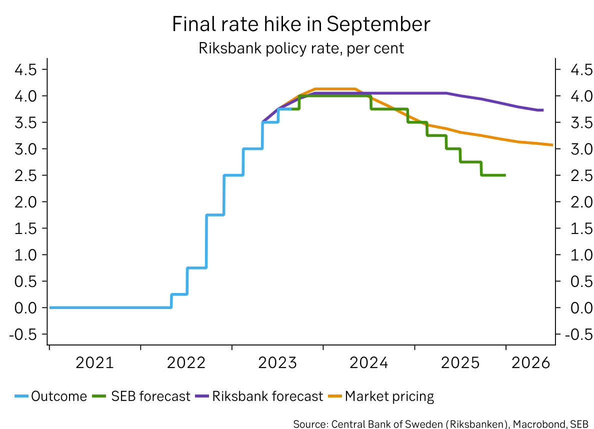
International prices and indicators are pointing clearly lower. How far and fast the inflation downturn will go is uncertain. Prices of services in particular have remained surprisingly strong this summer. Stagnant international prices and lower energy prices will lead to sharply diminishing cost pressures for companies. Although wages are accelerating, the upturn is moderate and follows several years of low pay increases and high productivity growth. A weak krona will delay the decline in inflation, but assuming that historical relationships persist, its effect on core inflation will only be a bit above half a per cent. International price trends will be the biggest factor in determining how far Swedish inflation will fall. Reversals in recent large increases in food and other commodity prices are a downside risk to our forecast. The outlook for service prices is more uncertain. Continued large increases in rents and tenant owners' association fees will put pressure on inflation in 2024 and to some extent also in 2025. We believe that the downturn in core inflation over the next year will take place at about the same rate as we assumed in the May issue of *Nordic Outlook*. Towards the end of 2024, we expect CPIF excluding energy to fall below the Riksbank's 2 per cent target for a period, due to reversals of food and other goods price increases.

A final Riksbank rate hike in September. The Riksbank's June interest rate path signalled a high probability (20 basis points) of another rate hike in September, and the press release states that the policy rate will be raised at least once more this year. The Riksbank's rate forecast indicated total hikes of 30 bps in September and November. Since then, core inflation (CPIF excluding energy) has been higher than the

Riksbank's forecast, but the divergence has been only 0.1 - 0.2 percentage points.

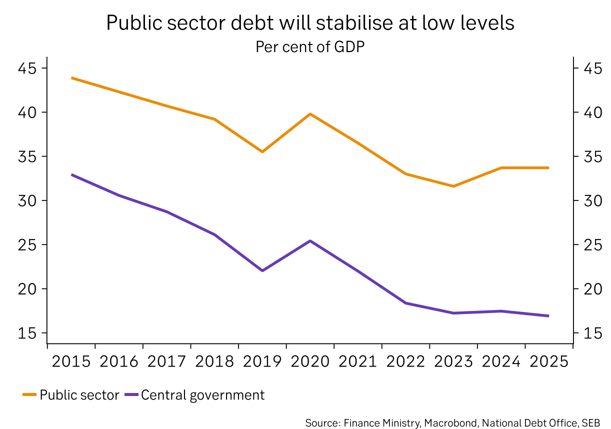


There is a high probability of a rate hike in September, but our forecast is that it will be the last in this cycle. We believe core inflation will continue to follow the Riksbank's forecast and decline more clearly starting in August. Because the US Federal Reserve and European Central Bank will have stopped hiking their key rates according to our forecasts, it will be easier for the Riksbank to stop. Today's very weak krona is an upside risk for the policy rate, and several members of the Executive Board have said that further SEK weakening could lead to more rate hikes. The Riksbank's June monetary policy report included a risk scenario assuming a key rate to 4.6 per cent by mid-2024. When core inflation approaches target around that time, the Riksbank will cut its policy rate.



Bond sales may increase even more. We believe that the Executive Board, rather than raising policy rates, prefers to increase bond sales. In June, the Riksbank decided to increase monthly bond sales from SEK 3.5 billion to SEK 5 billion starting in September. Although the Riksbank's balance sheet will already be shrinking very fast, Swedish bond yields are still low in an international perspective and demand in the Riksbank's auctions has been high.

Delayed fiscal stimulus. Swedish government finances have remained strong, although slower growth and higher costs are likely to bring this year's budget surplus close to zero. Because central government debt is low, at just over 15 per cent of GDP, there is plenty of room for expansionary fiscal policy. However, the government has signalled that it will continue to pursue a restrictive fiscal policy, so as not to delay the downturn in Sweden's high inflation. At the same time, there will be heavy pressure on the government to support hard-pressed households. We expect expansionary measures totalling SEK around 40 billion (just above 0.6% of GDP) in 2024.



Is inflation an excuse to wait until closer to the next election? The government's desire to keep inflation down is understandable, but it also risks worsening an already weak economy. At the same time, the government probably views the 2025 and 2026 budgets as more important ahead of the autumn 2026 election. More money for municipal and regional authorities, along with tax cuts and higher subsidies for households totalling SEK 15-20 billion, are likely elements of the 2024 budget. We have assumed that fiscal stimulus in the 2025 budget will total about SEK 80 billion, equivalent to nearly 1.5 per cent of GDP.

Unproblematic deficits in 2024 and 2025. Partly due to weaker economic activity and higher fiscal stimulus, the Swedish public sector will run a deficit of slightly above 2 per cent of GDP in 2024 and 0,5 per cent in 2025. In 2024 the deficit will be impacted by an expected capital injection of SEK 60 billion to the Riksbank to compensate for losses from its sizeable government bond purchases. After publishing its 2023 annual report in February 2024, the Riksbank will submit a request to the Riksdag (Parliament) for funds to restore its equity capital. The size of both the Riksbank's bond loss and the capital injection are uncertain and will affect the government's borrowing requirement, but not its estimated scope for reforms.

Theme:

The krona and flows

Explanations for the currency’s persistent downward slide

The weakness of the krona is unwelcome and is a headache for both the Swedish economy and the Riksbank. Our calculations show that the krona is 10-15 per cent undervalued in the long term and should thus appreciate. Based on our analytical framework for capital flows, we identify six explanations for the SEK’s weakness over the past decade. Several flows are of a structural nature. Key rate hikes are a blunt tool for strengthening the krona and have undesirable side effects. Instead, we see that the krona can be strengthened by such actions as political decisions that make it more attractive to invest pension assets, for example, in Sweden instead of abroad.

This summer the krona reached a new record low against the euro: SEK 11.96 per EUR. According to our models, it was then around 20 per cent undervalued against the euro. Yet the problem is not a weak krona as such, but that the SEK has shown a weakening trend against both the euro and US dollar in the past decade, even though Sweden’s economy has been relatively stronger than the rest of the world. The Riksbank’s KIX exchange rate index has previously been equally weak, but during two crises: “dotcom” in 2001 and the global financial crisis in 2008.

The Riksbank cites two main reasons why the SEK has lost value recently: the krona’s smallness in a troubled world and an unfavourable short-term interest rate spread. But these more short-term factors are not enough to explain its long-term downturn. We also need an analysis of possible changes in the krona’s real exchange rate, as well as an analysis of capital flows. A stronger krona will boost the potential for reducing costs to companies and thus lowering inflation.

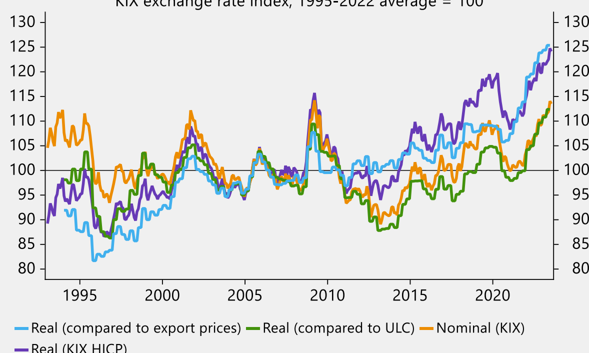
Real exchange rate – long-term equilibrium?

One of the most common ways to estimate the long-term equilibrium level of an exchange rate is to study real exchange rates. The idea is that foreign trade eventually helps real exchange rates to move towards equilibrium.

Real exchange rates can be calculated in many ways. The most common way is to use the consumer price index, but unit labour costs as well as export and import prices – which reflect a country's cost and competitive position – are also common. Real exchange rate metrics often differ greatly. According to the chart below, based on three different estimates, today's real exchange rate is 15-25 per cent weaker than the average over the past 30 years. Several real exchange rate metrics show a downward trend over the past decade, which may indicate that a comparison with the historical average exaggerates the deviation from equilibrium, at least in the medium term.

Nominal and real SEK exchange rates have both weakened

KIX exchange rate index, 1995-2022 average = 100



Source: Macrobond, National Insitute of Economic Research (NIER), SEB

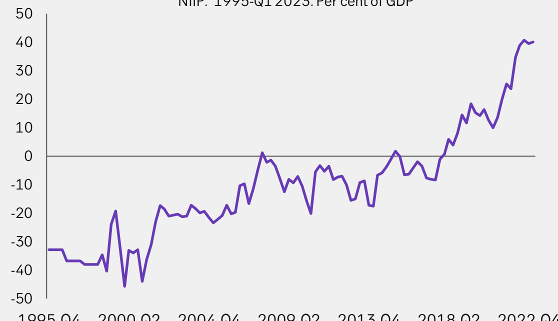
Our conclusion is thus that the real exchange rate is currently 10-15 per cent weaker than its long-term equilibrium. Several factors point in this direction. Sweden's large current account surplus indicates that the krona is undervalued. For a long time, Swedish prices rose more slowly than international prices, which – all else being equal – tends to result in an even weaker real exchange rate in the long run (assuming that the nominal exchange rate does not appreciate). In recent years, Swedish wages and salaries have also risen more slowly than international ones, reinforcing this picture. Since prices and wages move slowly, it is more likely that any adjustment in real exchange rates will take place through stronger nominal exchange rates. Real exchange rates are important in SEB's model estimates of long-term bilateral exchange rates. According to the models, the long-term exchange rate is 9.50 per EUR and 8.00 per USD: 20 and 27 per cent stronger, respectively, than today's rates.

Large trade and current account surpluses

Estimates of real exchange rates are uncertain, and differences in how prices and wages are measured can probably explain some of the trend in the krona's real exchange rate. However, large and persistent trade and current account (C/A) surpluses support the thesis that the krona is weaker than its long-term equilibrium. Over the past 30 years, the C/A surplus has averaged 5.5 per cent of GDP, a level surpassed by only a few countries in the world. Sweden's external position – total assets minus foreign claims on Sweden – currently totals more than 40 per cent of GDP (70 per cent if direct investments are stated at market value). The fact that much of Sweden's large savings has been channelled abroad is one important reason why the real exchange rate has been weak for a long time. A growing proportion of currency transactions are driven by investments and savings rather than by trade in goods and services, which is probably an important reason why real exchange rates have increasingly diverged from trend.

Sweden's net position now strongly positive

NIIP. 1995-Q1 2023. Per cent of GDP



Source: Statistics Sweden, SEB

Framework for capital flow analysis

Exchange rate analysis of capital flows in the balance of payments (BoP) is easier if flows are divided into autonomous and accommodating flows. The idea behind this classification is that autonomous flows occur independently of other balance-of-payment flows, for example due to changing expectations or various structural factors. But accommodating flows arise solely because autonomous flows need to be offset.

One common classification of the BoP involves viewing the C/A balance as an autonomous flow and the financial balance as an accommodating one. As mentioned above, countries like Sweden with a C/A surplus are expected to show an appreciating currency against deficit-ridden countries. The price of foreign currency in relation to the krona needs to fall – and the krona to strengthen – in order to stimulate increased purchases of foreign assets, which is a factor that complicates the flow analysis.

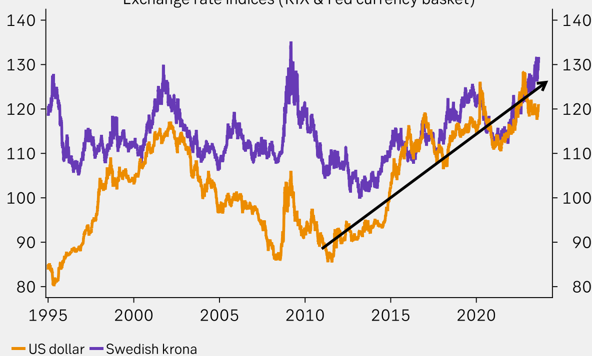
Another way to analyse the connections between balance-of-payments flows and exchange rate movements is to look at changes in the foreign currency exposure of different sectors. Such exposure arises when a sector has an asset or liability in foreign currency. Unfortunately, balance-of-payments statistics cannot explain changes in currency risk and thus do not provide a fully accurate picture of what has actually affected the krona. A transfer of exposure can lead to a change in the krona exchange rate. The degree of price impact is determined by how interested participants are in changing their SEK exposure krona under various conditions. For example, if the 7th AP Fund (a Swedish pension fund) decides to currency-hedge some of its foreign assets, this would – all else being equal – lead to an inflow of SEK 300-400 bn and thus a stronger krona.

Identifying six explanations for flows

Let us observe six different capital flows that may explain why the krona is 10-15 per cent weaker than normal. The explanations vary in strength over time but are related to the following (no ranking):

1. The US dollar's ten-year appreciation trend. The dollar normally moves in long cycles. The volume of US fixed income and equity markets has attracted both private and public capital to the USD. The European debt crisis of 2010-12 also seriously challenged the role of the euro as a reserve currency compared to the USD.

Is the 10-year USD appreciation trend approaching its end?
Exchange rate indices (KIX & Fed currency basket)



Source: Macrobond, SEB

2. Trend-following foreign model funds. These funds can amplify and prolong currency movements that are initially driven by other factors. In various ways, we note the presence of these funds in the SEK market and see that their importance has increased in recent years.

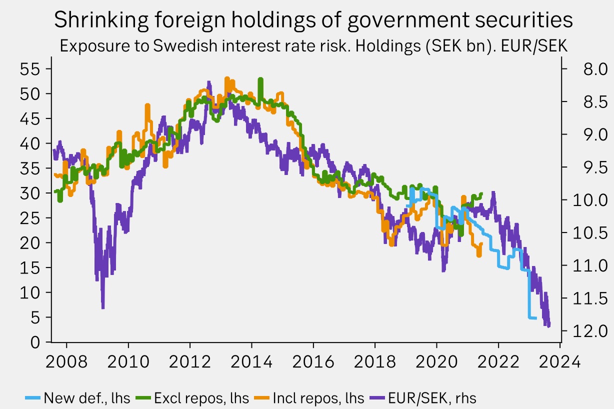
3. Demographics and public finances generate savings surpluses. An ageing population is a global phenomenon. Sweden's structural financial savings surplus is an expression of both large private institutional pension savings and large public savings. The Swedish pension fund industry has expressed concern about the lack of investment opportunities, for example in domestic physical and digital infrastructure and green investments. This means that some of Sweden's pension assets are going abroad instead. However, the impact on the krona is ultimately determined by whether this also means a change in the currency risk in pension assets.

4. Multinational companies reinvest abroad. It is quite logical that Swedish companies allow a significant percentage of the profits they generate abroad to be reinvested abroad. Today's new global trade landscape implies that international value chains need to be built with increased resilience. This means that additional investments will be made abroad. Only when these investments are sold does a positive krona effect arise, but it may take many years before this happens.

5. Extra risk premiums. The krona is a cyclical currency that strengthens in environments of global growth and good risk appetite. Sweden has built up a high level of debt in its household sector for many years and now has challenges in the real estate sector, which suggests that the krona should carry a risk premium.

6. Unconventional monetary policy. Riksbank policies from 2015 onwards – negative key interest rates and repeated threats of currency interventions (selling SEK to reduce deflation risk) – reduced the world's appetite for Swedish government securities. Our conclusion is that central banks reduced their holdings of these securities when the potential for a stronger SEK failed to materialise. Foreign investors instead bought mortgage-backed securities. This has apparently had a limited effect on the SEK since global private portfolio managers normally hedge holdings in fixed income securities.

Shrinking foreign holdings of government securities
Exposure to Swedish interest rate risk. Holdings (SEK bn). EUR/SEK



Source: Macrobond, SEB

Government debt issuance may prop up SEK

The Riksbank's latest communication gives the impression that it sees limited opportunities to use monetary policy to help the krona appreciate permanently from its current levels. Hiking its policy

rate even more merely to strengthen the krona is a blunt weapon, especially because some investors are already worried about particularly interest rate-sensitive segments of the Swedish economy. It may also reduce the clarity of inflation policy.

In June, the Riksbank announced that it would step up its issuance of government securities to SEK 5 billion per month. The idea is that the yields on these securities will rise more than the expected policy rate and that the SEK will eventually appreciate. Swedish government bond yields are still low in relation to the expected policy rate. Foreign investors have continuously reduced their holdings of Swedish government bonds due to low yields rates and a poorly functioning market. We believe that this has contributed to the weakening of the krona.

The fact that the Riksbank is now issuing more government securities is helping to narrow the yield spread between government securities and swap rates. The fixed income market may begin to function better again after years of low liquidity and very limited supply. This will help make the Swedish government securities market more attractive to foreign investors and provide room for the Swedish krona to appreciate. However, the positive flow effect is expected to be rather limited.

The Riksbank is considering FX hedging

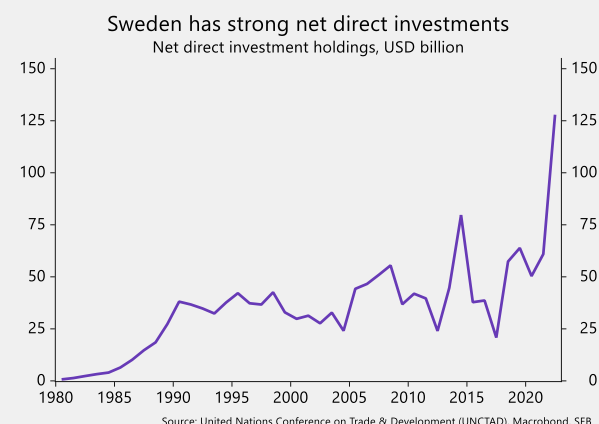
When the Riksbank published its latest monetary policy report in June, the central bank announced that it was considering currency hedging part of its foreign exchange reserve. This decision will be preceded by an inquiry that is expected to be completed in the "early autumn". Such a step, if taken, will aim to reduce the Riksbank's financial risk. According to the Executive Board, it should not be regarded as an action motivated by monetary policy.

The Riksbank has already suffered large losses on its securities holdings of around SEK 80 billion and will most likely need to ask the Riksdag (Parliament) for a capital injection early in 2024. If the krona appreciates to the same level as at the start of 2022, the estimated exchange loss will total nearly SEK 60 billion. It is likely that the currency hedge idea mainly reflects the Riksbank's reluctance to sustain further losses, but the timing of the announcement suggests that the central bank still hopes that such action will lead to an appreciation of the krona. However, we do not believe that the amount proposed, about SEK 100 billion, is large enough to generate lasting krona appreciation. Positive effects on the krona did not materialise; the SEK appreciation that took place in July was instead related to favourable US inflation data.

The weakness of the krona is increasing the value of foreign assets in krona terms, but we are also risking a sell-off of Swedish assets. Today the value of foreign assets totals nearly SEK 22 trillion. Swedish pension fund managers are hedging the value of shares and fixed income securities, for example. Roughly speaking, if we use the government-run AP Funds' benchmark of a maximum 40 per cent currency risk and assume that other assets are unhedged, a 10 per cent krona depreciation would have a positive wealth effect of just over SEK 1.7 trillion. From a foreign point of view, it would be cheaper to buy Swedish companies and real estate, which in the current situation of real estate market challenges might be a stabilising factor.

Investment opportunities strengthen SEK?

So is there anything that can help the Swedish krona return to stronger levels? Perhaps the answer lies partly with fiscal policy rather than monetary policy. For example, Swedish direct investment abroad has increasingly exceeded the corresponding foreign investments in Sweden. The lack of investment alternatives for Swedish pension assets in Sweden explains the choice of asset managers to invest abroad. This can generate a structural SEK outflow, although the actual effect on the krona exchange rate depends on how this currency exposure is managed by investors.



Swedish public sector debt has decreased steadily since the early 1990s, while many other countries have increased theirs. It is of course a difficult balancing act, but when the inflation trend allows it, the krona could benefit from initiatives to generate investment opportunities in such areas as digital and physical infrastructure. It is simply a matter of making it more attractive to invest in Sweden than abroad.

Norway
Weakness during the winter

Growth momentum is slowing, though the pace is more measured than anticipated. We still expect higher interest rates, weak real income and gradually rising unemployment to weigh on private consumption during this coming winter. Positive demand impulses from high petroleum activity will reduce the risk of the mainland economy entering a recession, but growth will be below trend in 2023-2024. Core inflation will ease next year, enabling Norges Bank to start cutting the key rate during the second half of 2024.

Economic activity remained positive during the first half of 2023, but growth momentum evidently decelerated. Households have been slow in adjusting consumption behaviours, supported by high job security and accumulated savings. We still expect higher interest rates, weak real income, and gradually rising unemployment to weigh on private consumption and home prices towards year-end. Although positive demand impulses from high petroleum capital spending will prevent an outright recession, growth momentum will be weak going into 2024. We predict a slowdown in mainland GDP growth to 0.8 per cent in 2023 and 0.5 per cent in 2024, before rebounding to a trend-like 1.2 per cent in 2025. Total GDP will outperform, rising by 1.4 and 0.6 per cent in 2023 and 2024, respectively.

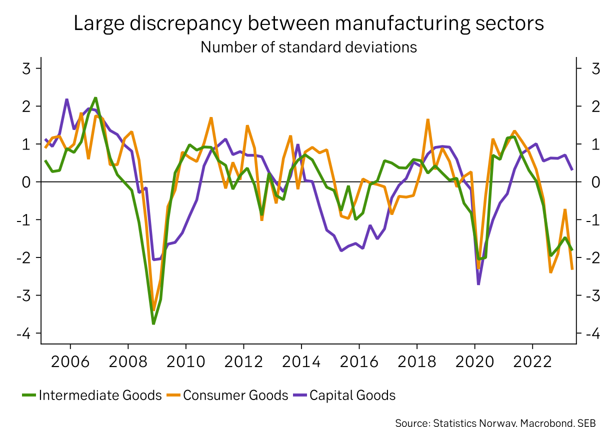
Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	3.3	1.4	0.6	1.8
Mainland GDP	3.8	0.8	0.5	1.2
LFS unemployment*	3.3	3.5	3.9	3.7
Wages and salaries	4.3	5.5	4.5	3.3
CPI-ATE inflation	3.9	6.5	4.1	2.5
Key interest rate, %	3.50	4.25	3.75	3.25

*Per cent of labour force. Source: Macrobond, SEB

A cyclical upturn in petroleum

The tax subsidy program initiated during the pandemic incentivised many new investment projects which will be carried out in coming years. Statistics Norway's Oil Investment Survey confirms the cyclical upswing in petroleum capital spending and suggests that some projects have been accelerated. We have thus lifted our forecast, expecting oil and gas investments to rise by an accumulated 12.5 per cent in 2023-2024. Investment growth should slow in 2025, though remaining positive. Petroleum suppliers are enjoying a revival in demand, reporting strong order bookings and production expectations as well as employment growth. In other manufacturing sectors, pessimism is widespread and high financing costs are limiting investments. Business capital spending will nonetheless rise modestly this year – underpinned by oil services, power supply and a few large projects related to climate and energy transition.



Residential investments will fall markedly this year due to weak new home sales, lower profitability and sharply falling order backlogs. After a cumulative decline of 13.5 per cent in 2023-2024, residential investments will rebound by 2.8 per cent in 2025. After contributing negatively to growth in 2023, mainland capital spending will turn neutral in 2024 and lift mainland GDP in 2025.

Home prices will fall this autumn

Existing home prices have been surprisingly resilient, rising 4.9 per cent in 2022 and 5.2 per cent year-to-date. Monthly price changes show a less assertive trend; a price surge during the first half of 2022 was followed by a decline during autumn and a rebound at the turn of 2023. This volatility largely reflects regulatory changes at the start of 2022 and 2023, delaying supply and then boosting demand. The tight labour market has helped to underpin prices, but underlying price momentum has softened and expectations for a correction during the second half of 2023 are widespread. Both lending rates and the supply of unsold homes will rise further. The price decline will be short-lived, since improving household purchasing power and weak housing investments will support prices further out. After broadly flat price growth this year, prices will rise by 0.4 and 3.9 per cent in 2024 and 2025, respectively.

A delayed setback in consumption

Private consumption has held up surprisingly well, considering rising mortgage rates and high costs for necessities. Large savings buffers have probably resulted in a longer time lag between monetary policy tightening and changing consumption behaviours. Moreover, households' ability and willingness to draw on savings, underpinned by high job security, have been underestimated. The saving ratio excluding dividends fell sharply last year to a record-low -7.8 per cent but rebounded to 0.0 per cent in Q1 2023. Meanwhile, households' deposits are still growing, though the 2.4 per cent rate is far from the 10.1 per cent peak in January 2021. Monthly consumption data have been distorted by unusual volatility in goods consumption. Spending on services has meanwhile been modest, pointing to a weak underlying consumption trend. We still expect higher interest rates and weak real disposable income to weigh on consumption this winter, resulting in private consumption falling 1.1 per cent in 2023. Despite gradually accelerating real disposable income, consumption growth will be partly restrained by a build-up in households' savings buffer. We forecast private consumption growth of 0.3 and 2.5 per cent in 2024 and 2025, respectively.

The labour market remains tight

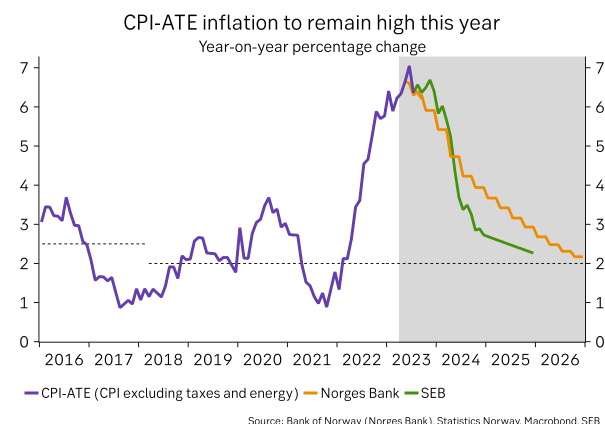
Despite early signs of cooling, the labour market has remained tight. Employment has risen by 0.5 per cent on a quarterly basis since autumn 2022, led by the private service sector. Job vacancies rose further in early 2023, though new vacancies according to the Norwegian Labour and Welfare Administration (NAV) show a slowing trend. Employment indicators, though diverging between sectors, point to overall moderation ahead in line with Labour Force Survey data. The registered unemployment rate has been 1.7-1.8 per cent over the past year but is expected to trend higher from this autumn. The upturn will be gradual, reaching pre-pandemic level during 2024.

The tight labour market is underpinning wage growth. The contractual norm in this year's wage negotiations was settled at 5.2 per cent, with the public sector settling at 5.4 per cent. We forecast wage and salary increases of 5.5 per cent in 2023. Though weaker growth prospects and falling headline inflation should slow wage growth in the next two years, high oil sector activity lend an upside risk to our 4.5 and 3.3 per cent projections for 2024 and 2025, respectively.

Inflation to remain sticky in 2023

After accelerating in the first half, CPI-ATE (CPI excluding taxes and energy) fell to 6.4 per cent in July. The decline was explained by large food-related base effects, with prices rising 3.2 per cent. This was far below the 7.5 per cent increase in 2022. A new price-setting strategy by some food retailers – gradual price hikes during the year rather than at the price-setting windows in February and July – adds uncertainty to the outlook. We predict that food prices will fall less than normal during the second half, resulting in CPI-ATE staying above 6 per cent year-on-year. Excluding food, alcohol, and tobacco, CPI-ATE was 5.6 per cent in July.

CPI-ATE inflation to remain high this year



Source: Bank of Norway (Norges Bank), Statistics Norway, Macrobond, SEB

Part of the July decline will be reversed. Still we predict CPI-ATE will have peaked at 7.0 per cent in June. Base effects from strong price increases in 2022 make it harder for the inflation rate to rise further. Relative high wage increases and accelerating rents imply that the decline in service prices will be moderate. Moreover, the decline in core goods prices will be smaller than in other countries due to the weak krone exchange rate. The contribution from the exchange rate is predicted to peak at around one percentage point by year-end. Our trajectory implies some upside risk to Norges Bank's forecast for the next 6 months. In 2024, CPI-ATE will fall rapidly, approaching target by end-2025.

Norges Bank is near its peak key rate

Norges Bank has gradually lifted its peak key rate as underlying inflationary pressures have proven more persistent and the krone has depreciated. The bank is still balancing between the risk of inflation becoming entrenched and the risk of amplifying an economic downturn by tightening too aggressively. Its rate path implies a final hike at the upcoming September meeting, bringing the key rate to 4.25 per cent. We share this view, though we believe Norges Bank will keep the door open for a possible hike later this autumn due to sticky core inflation. A more convincing moderation in core inflation, combined with a negative output gap, will allow for rate cuts starting in H2 2024. We forecast a key rate of 3.75 and 3.25 per cent by end-2024 and end-2025, respectively.

Denmark
A model of resilience

Revisions to Denmark's GDP in 2021-22 showed a higher level, but a flatter trajectory. Data for 2023 show continued growth, supported not least by the pharma sector, and we now only expect a deceleration to 1.2 per cent GDP growth this year, followed by a slow recovery in 2024 and 2025.

Revised GDP profile. Since the last issue of *Nordic Outlook*, Statistics Denmark has made major revisions to GDP data for 2020-2022. In total, these revisions raised the level of GDP in 2022 by 0.4 per cent, but the growth rate was revised down from 3.8 per cent to 2.8 per cent. Looking ahead, the expected mild recession in 2023 now looks more likely to be a prolonged soft landing, so we have raised our forecast for this year from 0.5 per cent to 1.2 per cent but lowered our 2024 forecast to 1.5 per cent from 2.0 per cent. We still expect a recovery, though, with growth of around 3.0 per cent in 2025.

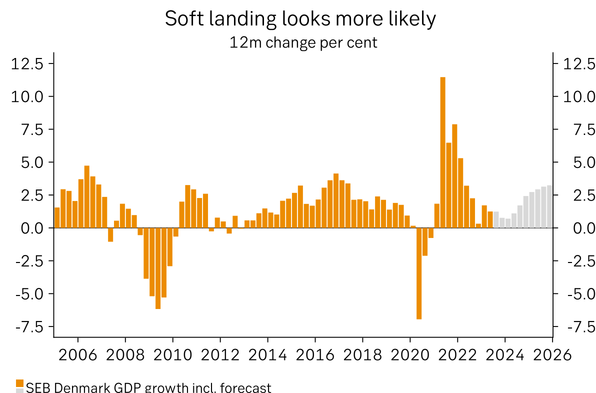
Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	2.8	1.2	1.5	3.0
CPI	7.7	3.7	2.2	1.6
Wages and salaries	2.6	3.2	3.6	4.0
Public sector fiscal balance*	3.4	3.0	3.5	4.0
Public sector debt*	30.1	30.0	28.0	26.0
Current account*	13.3	12.5	10.0	8.0
Key interest rate (CD rate), %	1.75	3.35	2.60	2.10

*% of GDP. Source: Statistics Denmark, DØRS, SEB

Q2 GDP indicator better than expected. The preliminary GDP indicator for Q2 showed a stronger-than-expected quarterly growth rate of 0.2 per cent after a gain of 0.6 per cent in the first quarter. GDP details have yet to be released, but Statistics Denmark reports that the increase was mainly driven by the pharmaceutical industry and the public sector, while foreign trade was a drag. The 0.8 per cent increase in GDP during the first half of the year indicates that the mild recession we had expected is being replaced by a more prolonged soft-landing scenario.

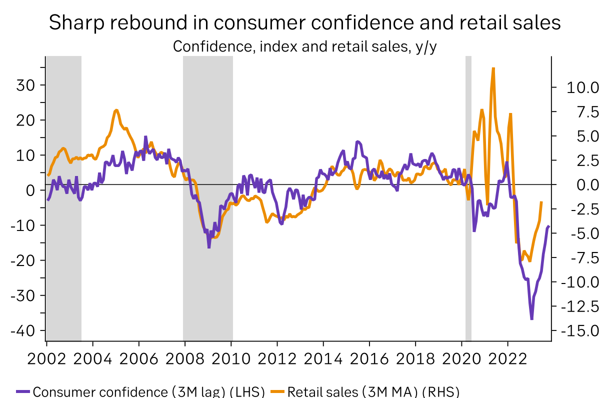
Soft landing looks more likely
12m change per cent



Source: Statistics Denmark, Macrobond, SEB

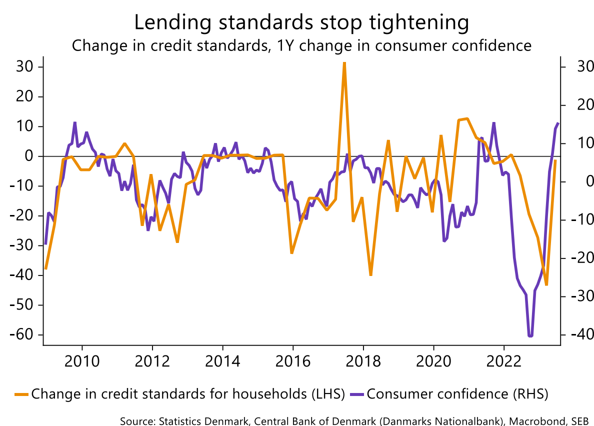
Consumption outlook is improving. Private consumption's recovery from the deep setback in 2022 has continued into the summer as falling inflation has started to restore consumer spending power and employment remains strong. Both retail sales and consumer confidence are more than half-way back to the level before last year's cost-of-living shock, indicating that 2023 could see growth return to positive territory – albeit only marginally – before picking up to 2.4 per cent in 2024.

Sharp rebound in consumer confidence and retail sales
Confidence, index and retail sales, y/y

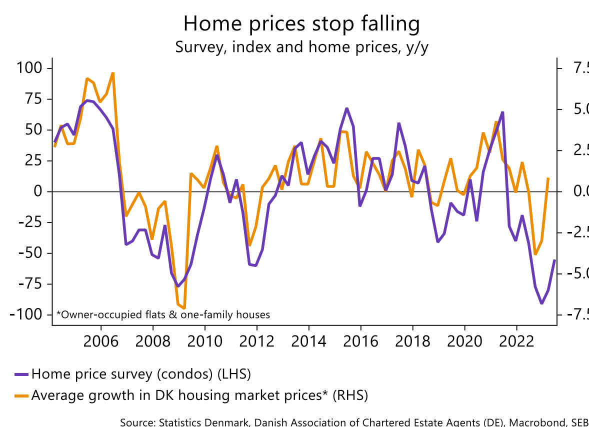


Source: Statistics Denmark, Macrobond, SEB

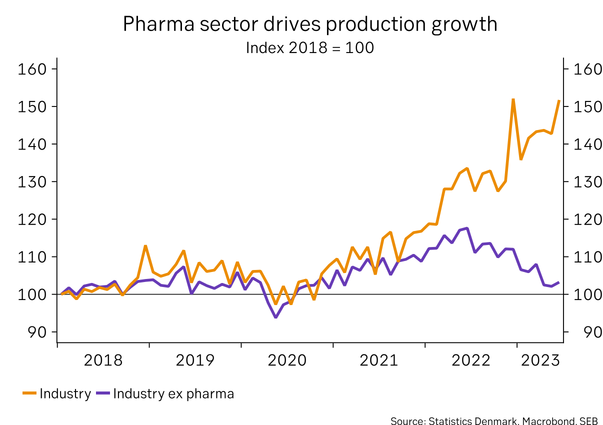
Lending conditions eases. Another supporting factor for consumer demand is the improvement in bank lending conditions. The Danmarks Nationalbank (DNB) lending survey shows that banks stopped tightening lending conditions for both household and business loans in Q2. This stands in contrast with the continued tightening reported in similar surveys for both the euro area and the United States. There is no obvious trigger for this divergence, but Danish banks have seen a substantial increase in their loan-deposit spread during the rate hike cycle and may also feel emboldened by signs of stabilisation in the housing market.



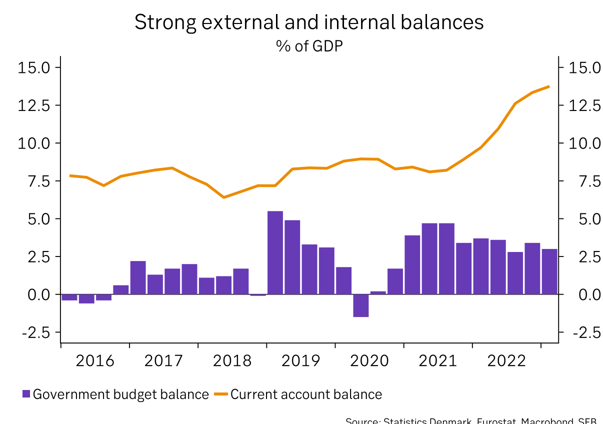
Home prices bottoming. The housing market is another bright spot, as there are now signs that prices are rising again after a modest decline, despite a very substantial increase in 30-year mortgage rates of around 5 percentage points from their 2022 lows. Media reports suggests selling times have shortened and discounts to offer prices have been reduced, and the home price survey from the national association of estate agents has picked up. However, the speed of the recovery has probably accelerated due to a change in property taxes that offers a lower tax for properties bought before January 1, 2024. If mortgage rates remain at their current level, the upside potential for real estate prices is likely to be limited.



Pharma has key macro role. Exports have been a growth driver in recent years. At first, this was due to a reopening-driven surge in revenues from container shipping, which has now normalised. However, the pharmaceutical sector has taken over, not least powered by demand for Novo Nordisk's new diabetes and obesity drugs. In fact, this sector has started to dominate at the macro level too, masking weakness in other sectors and thus helping to explain Denmark's resilience. Industrial production rose 18 per cent in the 12 months to June 2023. However, if we exclude the pharmaceutical sector, production was down 14 per cent. While pharma success is likely to be sustainable, this highlights the potential upside in other parts of the economy.



Too strong financial balances? From a policy perspective, the big question for Denmark is whether there is such a thing as being too wealthy. Booming exports have lifted the current account surplus to 14 per cent of GDP on an annual basis, adding to Denmark's already strong net international creditor status. It also suggests a structural underinvestment problem that could be partly addressed with public capital spending. The government's budget balance continues to exceed expectations, with the latest revisions showing a sustained surplus of more than 3.0 per cent of GDP. There is room for major initiatives in areas like clean energy infrastructure, but the government still appears to be bound by more conventional policy thinking.



Key interest rate spread caps DKK. While the link is not direct, the burgeoning and chronic current account surplus will make it harder for the DNB to defend the krone-euro peg against upward pressure on the DKK over time. However, in recent months, the pressure appears to have abated in the wake of a further widening of the key rate spread to the euro area, and the DKK is trading right where the national bank likes it to be. We expect both the key interest rate spread and the DKK to remain stable during the rest of 2023.

Finland
Coping with lower demand

The economy has proved more resilient than many expected, but the growing headwind of low demand in many parts of the economy will result in a 0.3 per cent fall in GDP this year. Recovery will be slow and growth will reach only 0.7 per cent in 2024. In 2025 we expect the economy to expand by 1.8 per cent.

Industry is holding its ground. The important manufacturing sector has fared relatively well, despite weak demand in many export markets. While the largest subsector, machinery production, has continued to expand, in the second-largest subsector, paper and pulp production, the fall in output can already be measured in double digits. However, we expect exports to remain the most resilient part of the Finnish economy and to contribute positively to economic growth. Exports will increase by 1 per cent in 2023 and 1.5 per cent in 2024.

Finns are consuming less. The decline in retail sales has continued but has not intensified. In June, sales fell 3 per cent below the year-earlier level. The market will probably remain relatively stable, supported by strong employment and wage growth. The service sector has continued to expand, but at a much slower pace than earlier. Private consumption will remain at roughly last year's level in 2023, and a modest 1.3 per cent growth is expected next year.

Key data
Year-on-year percentage change

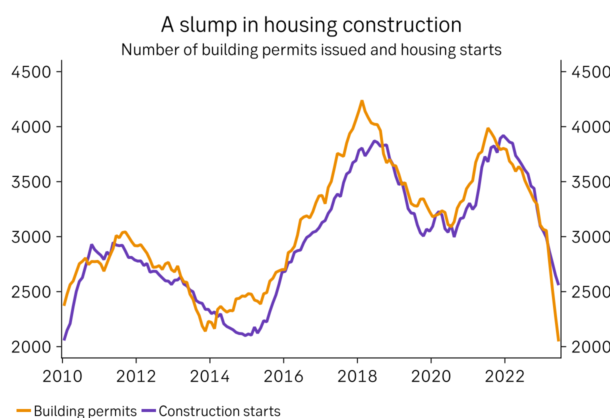
	2022	2023	2024	2025
GDP	1.6	-0.3	0.7	1.8
Private consumption	1.7	-0.1	1.3	1.5
Exports	3.5	1.0	1.5	3.0
Unemployment*	6.8	7.0	7.2	6.9
Wages and salaries	2.4	4.5	3.0	2.5
HICP inflation	7.2	5.0	2.5	2.0
Public sector fiscal balance**	-0.9	-2.2	-2.5	-2.0

*% of labour force **% of GDP. Source: Eurostat, SEB

Labour market. A small uptick in unemployment figures occurred in recent months, since the economy is adjusting to lower demand. Yet a more dramatic shift in the labour market seems unlikely, and the employment level will remain close to its historical high. Unemployment will average 7.0 per cent in 2023 and will increase marginally to 7.2 per cent in 2024. While the cooling economy will weaken the position of labour unions during wage negotiations, Finland's competitive labour market will continue to benefit employees. We expect wages and salaries to rise by 4.5 per cent this year and 3.0 per cent next year.

Inflation will come down. While headline inflation has slowed to just above 4 per cent, in many parts of the economy price pressures remain high. Core inflation remains elevated due to high wage increases and high service prices. HICP will increase by 5 per cent in 2023 but slow to 2.5 per cent in 2024.

A slump in housing construction. The situation in the housing market has turned from bad to worse. The number of building permits issued has dropped to only a third of last year's volume and new construction starts are roughly 30 per cent below last year's volume. Home prices have fallen by 7 per cent on an annual basis, but there are signs that they are stabilising. The outlook for capital spending in the business sector seems somewhat better. New lending to non-financial companies even rose by 1 per cent in the second quarter, after falling by 12 per cent the quarter before.



The new government will focus on spending less. Finland's new right-wing government, led by the National Coalition Party, took office in June. Despite economic headwinds, expansionary fiscal policy seems to be out of the question since public sector debt will soar to nearly 75 per cent of GDP. Snail-paced economic growth will make it hard to bring this down during our forecast period.

The Baltics

Lithuania | page 50

Exports are falling and unemployment will increase a bit, but private consumption will recover and inflation is rapidly falling. Due to weaker growth in the euro area, Lithuanian GDP will fall slightly this year and remain sluggish, but positive, in 2024.

Estonia | page 52

A weak outlook for exports and consumption is weighing on growth. Hopes of an early turnaround are diminishing as low demand weakens the labour market, which has so far been resilient. GDP will fall by 1.8 per cent this year.

Latvia | page 51

Weak international demand is hurting manufacturers and holding back economic activity. Real wages are improving as energy and food prices normalise, contributing to higher consumption. GDP will grow by 0.4 per cent this year.

Lithuania
Consumption will recover faster in 2024

In 2023 the Lithuanian economy will contract a little bit, mainly due to the drop in exports. Private consumption will start recovering, but overall GDP growth will remain sluggish in 2024. Labour market tightness has eased, and unemployment will increase slightly next year. Headline inflation is falling rapidly and will stay below 3 per cent in 2024 and 2025. The housing market has avoided a price correction so far. Parliamentary elections in October 2024 will not help reduce the government's budget deficit.

GDP declined by 0.9 per cent in first half of 2023, on an annual basis. As expected, the slump in manufacturing was the key driver behind this. Household consumption was also weak, but the bottom is most likely past. Inflation is falling below the growth in disposable incomes. The contribution from the construction sector was stronger investments in energy and transport infrastructure grew stronger. While we leave our 2023 forecast unchanged, we have lowered our 2024 growth projection to 1.8 per cent, due to weaker prospects in the euro area.

Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	1.9	-0.2	1.8	3.0
Household consumption	0.5	0.2	2.8	3.5
Exports	11.9	-3.4	2.3	4.6
Unemployment*	5.9	7.0	7.1	6.7
Wages and salaries	13.4	11.5	8.2	7.0
HICP inflation	18.9	9.0	2.8	2.6
Public sector fiscal balance**	-0.6	-1.9	-2.1	-1.0

*% of labour force **% of GDP. Source: Eurostat, SEB

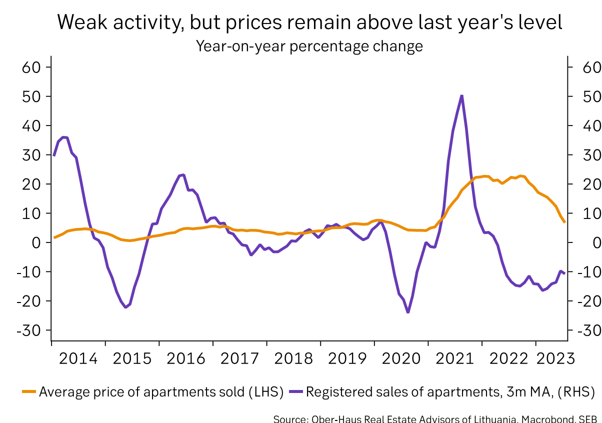
Weak export orders delay the recovery in manufacturing until 2024 at the earliest. The most difficult situation continues to be among producers of furniture and wood products, which have already cut staff by around 20 per cent as their output has dropped by a similar amount. No recovery is expected this year. However, producers of machinery, vehicles and electrical equipment are doing quite well. Lower electricity and natural gas prices will have a positive impact on profitability this year.

Lower energy prices are improving the current account balance. In 2022 the current account deficit jumped to 5.1 per cent of GDP. This year, lower prices for energy and other commodities will have the opposite effect. The current account is likely to be positive again, leading to weaker credit growth in the economy, as firms can make investments based on its own funding.

Unemployment will increase marginally in 2024. Recent labour market data are a bit distorted due to higher immigration from Ukraine and Belarus. The number of both employed and unemployed individuals increased during the past year. Businesses have become a little more cautious about hiring new employees in the short term, especially in manufacturing.

Wage growth keeps on surprising. Real wages will increase in 2023 after a sharp drop last year. Moreover, it has already been agreed that the minimum monthly wage will increase by 10 per cent in 2024, compared to 15 per cent growth this year. Meanwhile, a 20 per cent rise in non-taxable income will substantially help low earners.

Activity in the housing market is falling, but prices have remained stable since last autumn. It seems that contrary to our earlier projection, residential property prices will avoid a correction this year and end 2023 with close to zero change. We do not believe that there will be significant recovery in market activity during 2024, and home prices will suffer a small decline.



Controversial tax reform. The negative output gap and upcoming parliamentary elections will likely lead to a slightly expansionary fiscal stance in 2024. This autumn, Parliament will consider a tax reform that already faced many objections before receiving government approval.

Latvia
Recovering real wages will stabilise domestic demand

The anaemic international environment and a weak manufacturing outlook are holding back economic activity in Latvia. As normalising energy and food prices are pushing down inflation, real wage growth is resuming. This should improve private consumption, since the labour market remains resilient. With some delays, EU funds are boosting capital spending.

Mixed signals. After a 0.9 per cent GDP decline in the second quarter, the Latvian economy shrank by 0.1 per cent during the first half of 2023. Going forward, the weak export and manufacturing outlook will be outweighed by marginal improvements in domestic demand. Inflation is falling and wage growth is strong, but the labour market will remain relatively stable. We still expect the economy to experience a soft landing, with 0.4 per cent growth this year, accelerating to 2.5 per cent in 2024 and 2025.

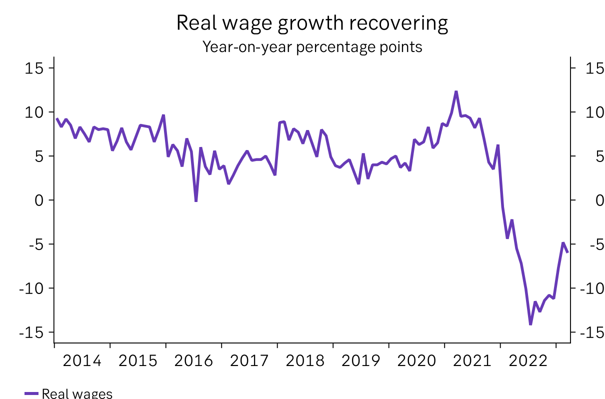
Weak sentiment for some time. Confidence remains weak in various sectors but is bottoming out, though it will stay subdued for the rest of the year. In July, business confidence worsened in manufacturing and construction, as well as in services and retail trade. Retail was the only sector where the confidence indicator was still positive.

Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	2.8	0.4	2.5	2.5
Household consumption	8.1	0.7	1.8	2.1
Exports	9.1	-1.5	2.6	3.2
Unemployment*	6.9	6.6	6.5	6.4
Wages and salaries	7.5	9.5	7.7	6.7
HICP inflation	17.3	9.4	2.4	2.0
Public sector fiscal balance**	-4.4	-3.2	-2.9	-2.5

*% of labour force **% of GDP. Source: Statistics Latvia, SEB

The labour market remains resilient. During Q1 2023, unemployment fell to 6.4 per cent. Trends indicate that opportunities to land a job still exist, but the choices are narrowing, since employers have become more cautious about hiring. Surveys show that the demand for labour has decreased but is still relatively strong. Due to lay-offs in such sectors as manufacturing and transit, we still foresee a slight increase in unemployment by year-end before stronger demand changes the development in positive direction.



Downturn in manufacturing. In June, production volume decreased in two of the three largest sectors: wood products and fabricated metal products. Overall, confidence is at its lowest in three years. Recovery in such industries as wood products will follow the rebound in construction and exports. Certain industries will continue to be negatively affected by weak exports and the further narrowing of cooperation with Russia. During the first half of 2023, merchandise exports were down by 4.5 per cent. Gradual stabilisation may appear by the end of the year. The long-awaited EU fund inflows are starting to heat up the construction sector, hence investments will be a key driver in the coming years.

Inflation keeps shrinking. In July, inflation fell to 6.4 per cent with the largest contributors were still food and housing while a drop in fuel prices worked in the opposite direction. If next winter does not prove excessively cold, there should not be any major trouble with fuel bills, even though most subsidies have been cancelled. However, food prices remain a problem. In 2021 food prices in Latvia stood at 94.9 per cent of the EU27 average, but in 2022 they reached 102.8 per cent. Within three months, inflation will drop to around 3 per cent, though it will take more time to stabilise people's inflation perceptions. Real wage growth is turning positive again, but purchasing power will recover unevenly. The impact of high inflation will still be seen in the data for some time.

Estonia
Running out of luck

Due to high inflation, the steep fall in real GDP has so far gone almost unnoticed in the economy. This year, the weak outlook for exports and private consumption will weigh on growth. With diminishing hope for a quick turnaround, low aggregate demand will soon start to negatively affect the labour market. We expect the economy to contract by 1.8 per cent this year, but since the current problems in the economy will not subside for some time, growth will remain slow in the next couple of years too.

High nominal income growth has sustained demand. Rapid growth in the nominal income of both households and businesses has counteracted the decline in GDP since the second quarter of 2022. However, as price levels stabilise and wage growth slows, lower demand is starting to affect the economy.

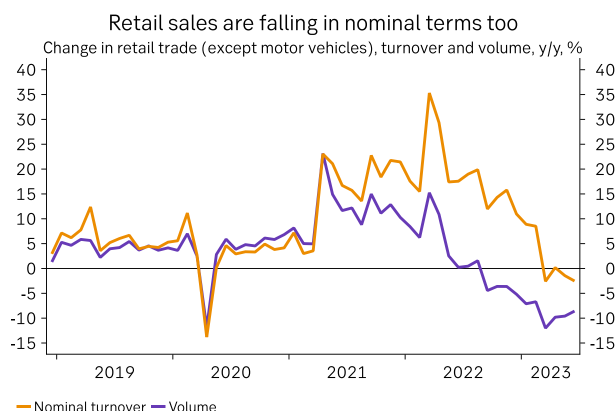
Dire situation for exports. The main problems of the economy lie in the once prominent manufacturing sector. Exports of goods were equivalent to 55.5 per cent of GDP in 2022, but falling demand from Estonia's main trading partners has seriously affected business. A steep decline in output started in early 2022, and output is now back at its 2018 level. The manufacturing sector is closely tied to the Nordic construction and real estate markets, which are not expected to recover quickly. In 2023, exports will fall by 3.7 per cent. A re-routing of trade to other countries is no easy task, and exports will remain subdued during our forecast period.

Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	-0.5	-1.8	1.5	3.0
Private consumption	2.0	-0.6	1.7	3.5
Exports	3.0	-3.7	2.0	5.0
Unemployment*	5.5	6.5	6.9	6.2
Wages and salaries	11.6	10.5	6.5	6.0
HICP inflation	19.4	9.5	4.5	2.5
Public sector fiscal balance**	-0.9	-1.5	-2.5	-1.5

*% of labour force **% of GDP. Source: Eurostat, SEB

Fall in sales volume has turned into a fall in turnover. High inflation and low consumer sentiment have been depressing retail trade since autumn 2022. Sales volume has now fallen by almost 10 per cent, and during the past couple of months nominal turnover also has declined. So far, the service sector has fared better, but this autumn it is likely to contract as well. Private consumption will fall by 0.6 per cent this year, while we expect growth of 1.7 per cent in 2024 and 3.5 per cent in 2025.



The resilience of the labour market will not hold forever. The recession has not yet affected the labour market. Both employment and wage growth remain very high. After a short-lived recovery in forward-looking employment expectations indices, the outlook has turned bleaker in recent months. A certain need to cut the number of employees seems inevitable in Estonia's manufacturing sector, given the large drop in demand. Due to chronic problems in recruiting new personnel, companies are generally still trying to hold on to their employees as long as possible. The unemployment rate will thus peak at only 6.9 per cent in 2024.

The real estate market has remained buoyant. The housing market has managed to ignore the clear downward trend in the Nordics. Sales are approximately at the same level as in 2021, and average prices have continued to increase. Without a significant downturn in the labour market, this situation is unlikely to change much.

Political haggles to continue. The centre-right coalition government that took office in April has pushed through several changes in tax legislation, hiking the value-added tax and making changes to the personal income tax system. Next in line will be the vehicle tax. The opposition is against the bill and will stop it from passing. Meanwhile balancing the budget remains an issue. The deficit will amount to 2.5 per cent of GDP in 2024.

Global key indicators

Yearly change in per cent

	2022	2023	2024	2025
GDP OECD	2.9	1.4	1.2	2.1
GDP world (PPP)	3.3	2.8	2.7	3.2
CPI OECD	9.5	6.3	2.3	2.0
Oil price. Brent (USD/barrel)	99	81	85	88

US

Yearly change in per cent

	2022 level. USD bn	2022	2023	2024	2025
Gross domestic product	25,463	2.1	2.0	0.9	2.0
Household consumption	17,357	2.7	2.2	0.8	1.8
Public consumption	3,591	-0.3	2.5	0.8	0.8
Gross fixed investment	5,331	0.4	1.4	2.5	3.8
Stock building (change as % of GDP)	159	0.7	-0.6	0.0	0.0
Exports	2,976	7.1	2.1	2.3	3.5
Imports	3,951	8.1	-2.2	2.9	3.7
Unemployment (%)		3.6	3.6	4.1	4.1
Consumer prices		8.0	4.1	2.0	1.6
Core CPI		6.2	4.7	2.5	2.1
Public sector financial balance. % of GDP		-3.7	-6.7	-7.0	-7.3
Public sector debt. % of GDP		121	122	127	131

Euro area

Yearly change in per cent

	2022 level. EUR bn	2022	2023	2024	2025
Gross domestic product	13,355	3.4	0.6	0.8	2.0
Household consumption	7,017	4.5	-0.3	1.0	2.1
Public consumption	2,871	1.4	-0.7	0.7	1.0
Gross fixed investment	3,001	2.9	1.4	1.0	1.8
Stock building (change as % of GDP)		0.3	0.2	0.2	0.0
Exports	7,344	7.1	1.6	2.2	3.2
Imports	7,103	8.1	0.9	2.8	2.9
Unemployment (%)		6.7	6.5	7.0	7.0
Consumer prices		8.4	5.5	1.0	1.2
Core CPI		3.9	5.2	2.7	2.1
Public sector financial balance. % of GDP		-3.6	-3.5	-2.7	-2.4
Public sector debt. % of GDP		91.5	89.4	88.2	87.1

Other large countries

Yearly change in per cent

	2022	2023	2024	2025
GDP				
United Kingdom	4.1	0.1	0.5	1.8
Japan	1.0	1.8	1.2	0.9
Germany	1.8	-0.4	0.8	1.9
France	2.5	0.7	0.8	1.8
China	3.0	5.2	4.7	4.8
India	6.7	6.3	6.4	6.2
Brazil	2.9	2.1	1.9	2.0
Russia	-2.1	0.6	1.1	1.0
Poland	5.1	0.9	2.7	3.3
Inflation				
United Kingdom	9.1	7.6	3.5	2.2
Japan	2.5	3.2	2.0	1.3
Germany	8.7	6.2	1.7	0.9
France	5.9	5.7	1.0	0.9
China	2.0	0.7	1.8	2.0
India	5.1	6.7	5.2	4.8
Brazil	9.3	4.8	4.0	3.7
Russia	13.8	5.5	5.0	4.3
Poland	14.3	12.5	6.5	4.5
Unemployment (%)				
United Kingdom	3.7	4.0	4.5	4.8
Japan	2.6	2.5	2.4	2.4
Germany	3.1	3.2	3.8	3.8
France	7.3	7.2	7.8	7.8

Financial forecasts

Official interest rates	24-Aug	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25
US	5.50	5.50	5.00	4.00	3.25	2.50
Japan	-0.10	0.00	0.00	0.00	0.00	0.00
Euro area. deposit rate	3.75	3.75	3.50	3.00	2.50	2.50
United Kingdom	5.25	5.75	5.75	4.75	4.00	3.25
Bond yields. 10 year						
US	4.23	4.50	4.20	3.90	3.40	3.00
Japan	0.64	0.25	0.25	0.25	0.25	0.25
Germany	2.52	2.80	2.65	2.60	2.55	2.50
United Kingdom	4.42	4.90	4.80	4.65	4.40	4.20
Exchange rates						
USD/JPY	146	143	135	130	125	120
EUR/USD	1.08	1.09	1.14	1.16	1.18	1.19
EUR/JPY	158	156	154	151	148	143
EUR/GBP	0.86	0.88	0.91	0.93	0.93	0.94
GBP/USD	1.26	1.24	1.25	1.25	1.27	1.27

Sweden

Yearly change in per cent

	2022 level. SEK bn	2022	2023	2024	2025
Gross domestic product	5,926	2.6	-1.2	0.1	2.5
Gross domestic product. working day adjustment		2.7	-1.0	0.1	2.6
Household consumption	2,629	2.1	-2.6	1.4	2.7
Public consumption	1,486	0.0	0.4	0.4	0.8
Gross fixed investment	1,590	5.2	-3.3	-4.4	4.0
Stock building (change as % of GDP)	78	1.0	-0.6	0.0	0.1
Exports	3,116	6.6	-0.9	3.1	5.0
Imports	2,973	8.7	-3.9	2.3	5.5
Unemployment. (%)		7.5	7.5	8.3	8.4
Employment		2.8	1.6	-0.4	0.2
CPI		8.4	8.6	3.7	1.7
CPIF		7.7	5.9	2.5	1.8
Hourly wage increases		2.7	4.1	3.9	3.5
Household savings ratio (%)		13.9	12.9	14.8	14.6
Real disposable income		0.7	-2.8	1.9	2.3
Current account. % of GDP		4.7	6.0	6.5	5.5
Central government borrowing. SEK bn		-164	-15	120	40
Public sector financial balance. % of GDP		0.8	0.0	-2.2	-0.5
Public sector debt. % of GDP		32.8	31.6	33.7	33.7

Financial forecasts	24-Aug	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25
Policy rate	3.75	4.00	3.75	3.50	3.00	2.50
3-month interest rate. STIBOR	4.02	4.05	3.75	3.45	2.95	2.55
10-year bond yield	2.75	3.10	2.95	2.90	2.85	2.80
10-year spread to Germany. bps	0.23	0.30	0.30	0.30	0.30	0.30
USD/SEK	10.99	10.92	10.09	9.74	9.41	9.24
EUR/SEK	11.90	11.90	11.50	11.30	11.10	11.00
KIX	131.1	130.7	125.5	123.1	121.1	120.0

Finland

Yearly change in per cent

	2022 level. EUR bn	2022	2023	2024	2025
Gross domestic product	269	1.6	-0.3	0.7	1.8
Household consumption	138	1.7	-0.1	1.3	1.5
Public consumption	65	0.8	0.8	1.0	1.0
Gross fixed investment	71	3.2	-2.0	0.0	3.0
Stock building (change as % of GDP)				0.4	0.1
Exports	121	3.5	1.0	1.5	3.0
Imports	128	8.3	-2.5	1.0	2.0
Unemployment. OECD harmonised (%)		6.8	7.0	7.2	6.9
CPI harmonised		7.2	5.0	2.5	2.0
Hourly wage increases		2.4	4.5	3.0	2.5
Current account. % of GDP		-3.6	-0.8	-0.5	0.0
Public sector financial balance. % of GDP		-0.9	-2.2	-2.5	-2.0
Public sector debt. % of GDP		73.0	73.0	74.5	74.5

Norway

Yearly change in per cent

	2022 level. NOK bn	2022	2023	2024	2025
Gross domestic product	3,714	3.3	1.4	0.6	1.8
Gross domestic product (Mainland)	3,317	4.2	0.8	0.5	1.2
Household consumption	1,679	6.9	-1.1	0.3	2.5
Public consumption	951	0.1	3.0	1.6	1.5
Gross fixed investment	983	4.3	0.2	0.9	2.3
Stock building (change as % of GDP)		0.2	-0.1	0.0	0.0
Exports	1,249	5.9	4.7	2.7	3.1
Imports	1,275	9.2	1.4	3.3	4.0
Unemployment (%)		3.3	3.5	3.9	3.7
CPI		5.8	5.9	4.0	2.6
CPI-ATE		3.9	6.5	4.1	2.5
Annual wage increases		4.3	5.5	4.5	3.3

Financial forecasts	24-Aug	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25
Deposit rate	4.00	4.25	4.25	3.75	3.50	3.25
10-year bond yield	3.79	4.10	3.90	3.70	3.60	3.40
10-year spread to Germany. bps	127	130	125	110	105	90
USD/NOK	10.69	10.60	9.69	9.22	8.73	8.57
EUR/NOK	11.58	11.55	11.05	10.70	10.30	10.20

Denmark

Yearly change in per cent

	2022 level. DKK bn	2022	2023	2024	2025
Gross domestic product	2,832	2.8	1.2	1.5	3.0
Household consumption	1,214	-1.5	0.2	2.6	3.4
Public consumption	617	-2.8	-1.3	0.9	0.8
Gross fixed investment	616	3.3	0.4	7.8	6.1
Stock building (change as % of GDP)		0.4	0.0	0.0	0.0
Exports	1,983	10.9	4.5	2.5	4.1
Imports	1,642	6.5	2.1	5.4	4.9
Unemployment. OECD harmonised (%)		4.8	5.1	4.7	3.9
CPI. harmonised		7.7	3.7	2.2	1.6
Hourly wage increases		2.6	3.2	3.6	4.0
Current account. % of GDP		13.3	12.5	10.0	8.0
Public sector financial balance. % of GDP		3.4	3.0	3.5	4.0
Public sector debt. % of GDP		30.1	30.0	28.0	26.0

Financial forecasts	24-Aug	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25
Deposit rate	3.35	3.35	3.10	2.60	2.10	2.10
10-year bond yield	2.80	3.05	2.90	2.85	2.80	2.75
10-year spread to Germany. bps	28	25	25	25	25	25
USD/DKK	6.88	6.83	6.54	6.42	6.31	6.26
EUR/DKK	7.45	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	1.9	-0.2	1.8	3.0
Household consumption	39	0.5	0.2	2.8	3.5
Public consumption	11	0.5	0.5	0.2	0.0
Gross fixed investment	18	2.6	7.0	4.5	3.0
Exports	58	11.9	-3.4	2.3	4.6
Imports	60	12.3	-1.0	3.5	4.7
Unemployment (%)		5.9	7.0	7.1	6.7
Wages and salaries		13.3	11.5	8.2	7.0
Consumer prices		18.9	9.0	2.8	2.6
Public sector financial balance. % of GDP		-0.6	-1.9	-2.1	-1.0
Public sector debt. % of GDP		38.4	39.0	39.4	40.0

Latvia

Yearly change in per cent

	2022 level. EUR bn	2022	2023	2024	2025
Gross domestic product	39.1	2.8	0.4	2.5	2.5
Household consumption	23.7	8.3	0.7	1.8	2.1
Public consumption	7.6	2.8	4.5	3.5	2.7
Gross fixed investment	10.1	0.7	5.7	3.9	3.5
Exports	27.5	9.1	-1.5	2.6	3.2
Imports	29.8	11.7	-1.9	1.5	2.0
Unemployment (%)		6.9	6.6	6.5	6.4
Wages and salaries		7.5	9.5	7.7	6.7
Consumer prices		17.2	9.4	2.4	2.0
Public sector financial balance. % of GDP		-4.4	-3.2	-2.9	-2.5
Public sector debt. % of GDP		40.8	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	-1.8	1.5	3.0
Household consumption	19	2.0	-0.6	1.7	3.5
Public consumption	7	0.1	1.5	1.0	2.0
Gross fixed investment	11	-3.7	-8.0	2.0	4.5
Exports	31	3.0	-3.7	2.0	5.0
Imports	31	3.2	-4.2	1.5	4.5
Unemployment (%)		5.5	6.5	6.9	6.2
Wages and salaries		11.6	10.5	6.5	6.0
Consumer prices		19.4	9.5	4.5	2.5
Public sector financial balance. % of GDP		-0.9	-1.5	-2.5	-1.5
Public sector debt. % of GDP		18.4	19.0	21.5	23.0

Jens Magnusson
Chief Economist
+ 46 70 210 22 67

Daniel Bergvall
Head of Economic Forecasting
+46 73 523 52 87

Carl Hammer
Chief Strategist
+46 70 302 61 28

Robert Bergqvist
Theme: The krona and flows
Japan
+46 70 445 14 04

Erik Meyersson
China, Emerging markets
+46 70 739 16 83

Erica Dalstø
SEB Oslo
Norway
+47 2282 7277

Pia Fromlet
Theme: Green subsidies
Euroområdet
+46 70 739 32 66

Dainis Gaspuitis
SEB Riga
Latvia
+371 67779994

Johan Hagbarth
Stock markets
+46 8 763 69 58

Jussi Hiljanen
Fixed income
+46 8 506 231 67

Olle Holmgren
Theme: Inflationary forces
Sweden
+46 70 763 80 79

Johan Javeus
Theme: AI and the economy
+46 70 325 51 45

Cecilia Kohonen
Communication Manager
+46 70 763 79 95

Elisabet Kopelman
Theme: Green subsidies
United States
+ 46 70 655 30 17

Elizabeth Mathiesen
SEB Copenhagen
Denmark
+45 285 517 47

Mihkel Nestor
SEB Tallinn
Finland, Estonia
+372 6655172

Tadas Povilauskas
SEB Vilnius
Lithuania
+370 68646476

Karl Steiner
FX markets
+46 70 332 31 04

Amanda Sundström
United Kingdom
+46 70 445 14 04

Thomas Thygesen
SEB Copenhagen
Denmark
+45 2147 9656

Marcus Widén
Macro forecasting
+46 70 639 10 57

This report was published on August 29, 2023.
Cut-off date for calculations and forecasts was August 24, 2023.

This report has been compiled by SEB Large Corporates & Financial Institutions, a division within Skandinaviska Enskilda Banken AB (publ) ("SEB") to provide background information only.
Opinions, projections and estimates contained in this report represent the author's present opinion and are subject to change without notice. Although information contained in this report has been compiled in good faith from sources believed to be reliable, no representation or warranty, expressed or implied, is made with respect to its correctness, completeness or accuracy of the contents, and the information is not to be relied upon as authoritative. To the extent permitted by law, SEB accepts no liability whatsoever for any direct or consequential loss arising from use of this document or its contents.
The analysis and valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties; different assumptions could result in materially different results. The inclusion of any such valuations, projections and forecasts in this report should not be regarded as a representation or warranty by or on behalf of the SEB Group or any person or entity within the SEB Group that such valuations, projections and forecasts or their underlying assumptions and estimates will be met or realised. Past performance is not a reliable indicator of future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. Anyone considering taking actions based upon the content of this document is urged to base investment decisions upon such investigations as they deem necessary.
In the UK, this report is directed at and is for distribution only to (I) 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 (The ''Order'') or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as ''relevant persons''. This report must not be acted on or relied upon by persons in the UK who are not relevant persons. In the US, this report is distributed solely to persons who qualify as ''major U.S. institutional investors'' as defined in Rule 15a-6 under the Securities Exchange Act. U.S. persons wishing to effect transactions in any security discussed herein should do so by contacting SEBEI.
The distribution of this document may be restricted in certain jurisdictions by law, and persons into whose possession this documents comes should inform themselves about, and observe, any such restrictions.
This document is confidential to the recipient, any dissemination, distribution, copying, or other use of this communication is strictly prohibited.
Skandinaviska Enskilda Banken AB (publ) is incorporated in Sweden, as a Limited Liability Company. It is regulated by Finansinspektionen, and by the local financial regulators in each of the jurisdictions in which it has branches or subsidiaries, including in the UK, by the Financial Services Authority; Denmark by Finanstilsynet; Finland by Finanssivalvonta; and Germany by Bundesanstalt für Finanzdienstleistungsaufsicht. In Norway, SEB Enskilda AS ('ESO') is regulated by Finanstilsynet. In the US, SEB Securities Inc ('SEBEI') is a U.S. broker-dealer, registered with the Financial Industry Regulatory Authority (FINRA). SEBEI and ESO are direct subsidiaries of SEB.