

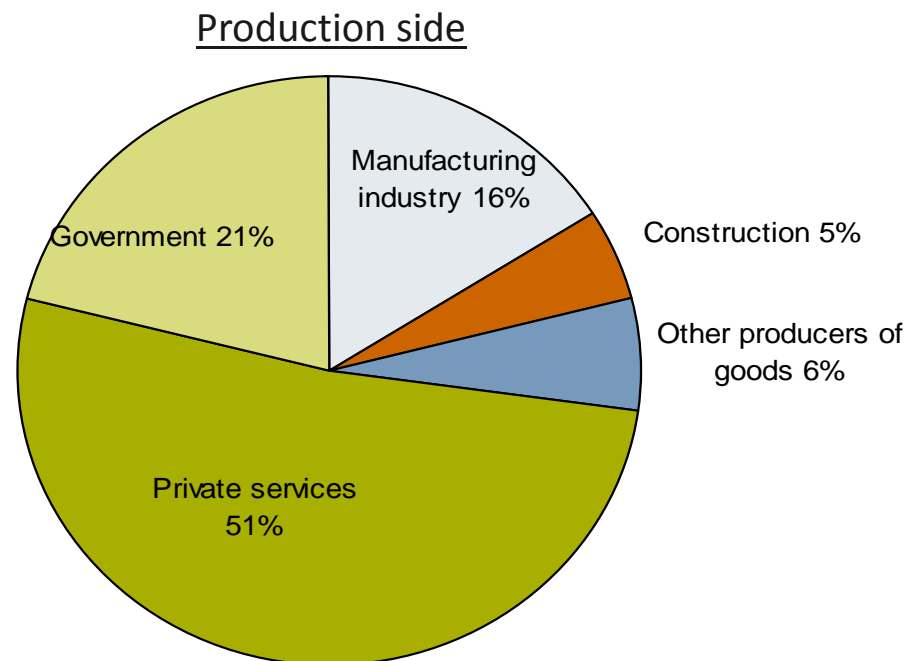
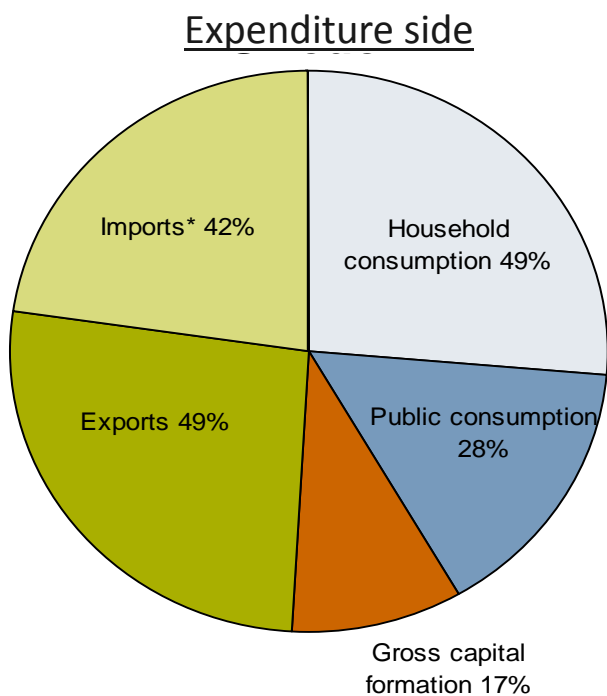


The Swedish economy

November 2013

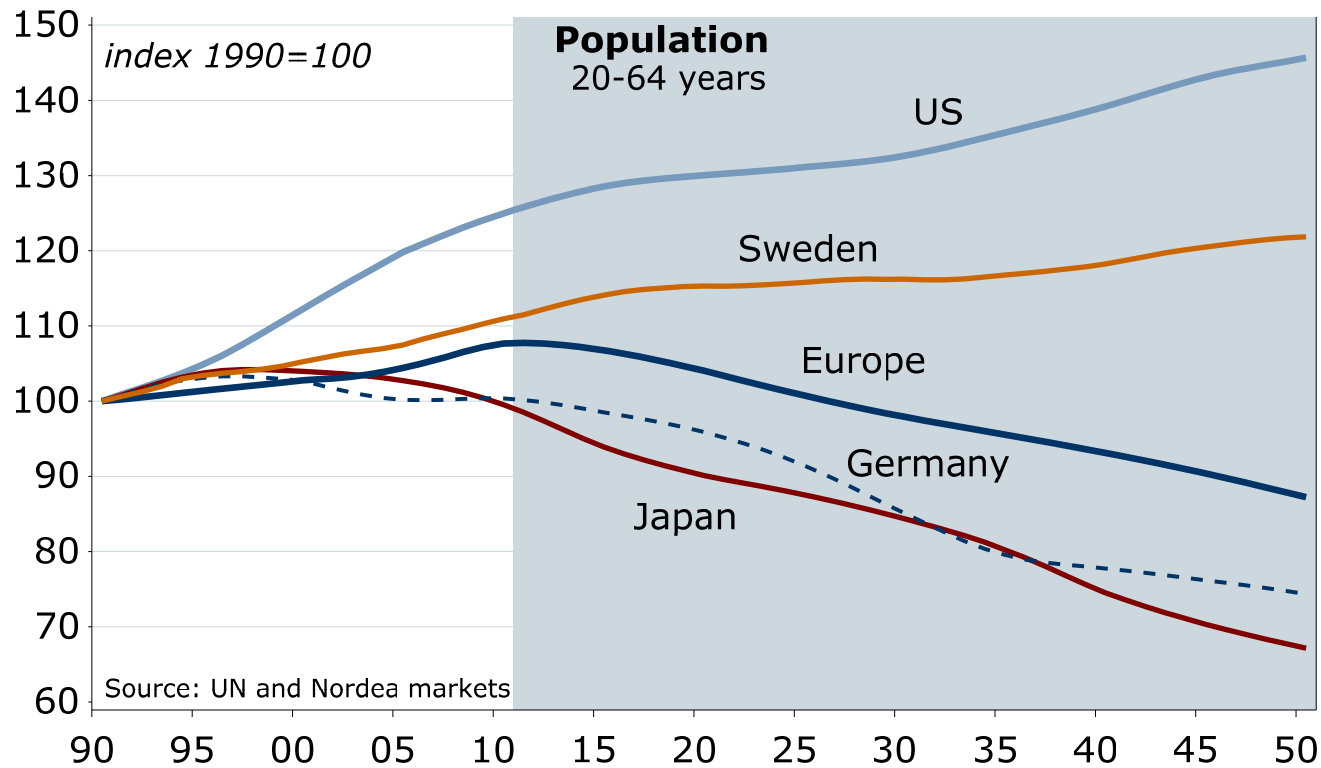
Nordea Research

GDP compositions - the importance of trade



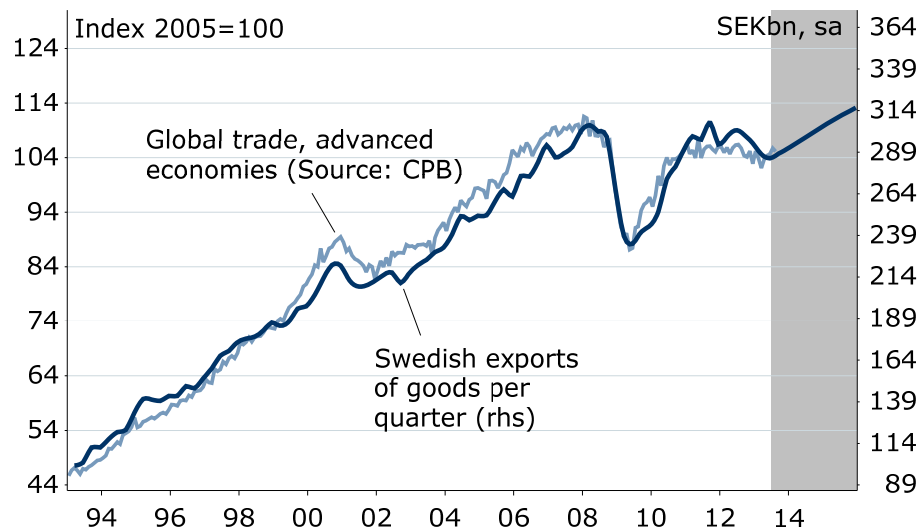
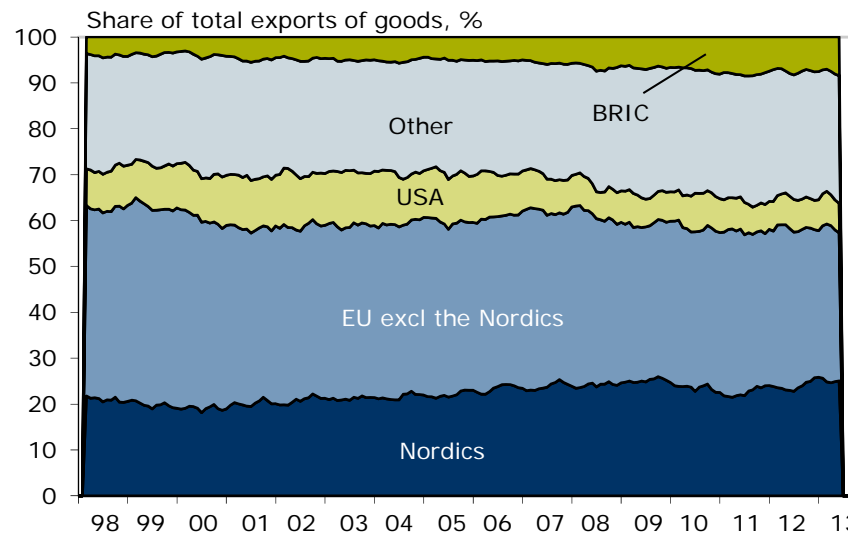
*Note: Sectors' share of GDP
(production side, excl. taxes and subsidies on products)*

Relatively favourable demographics

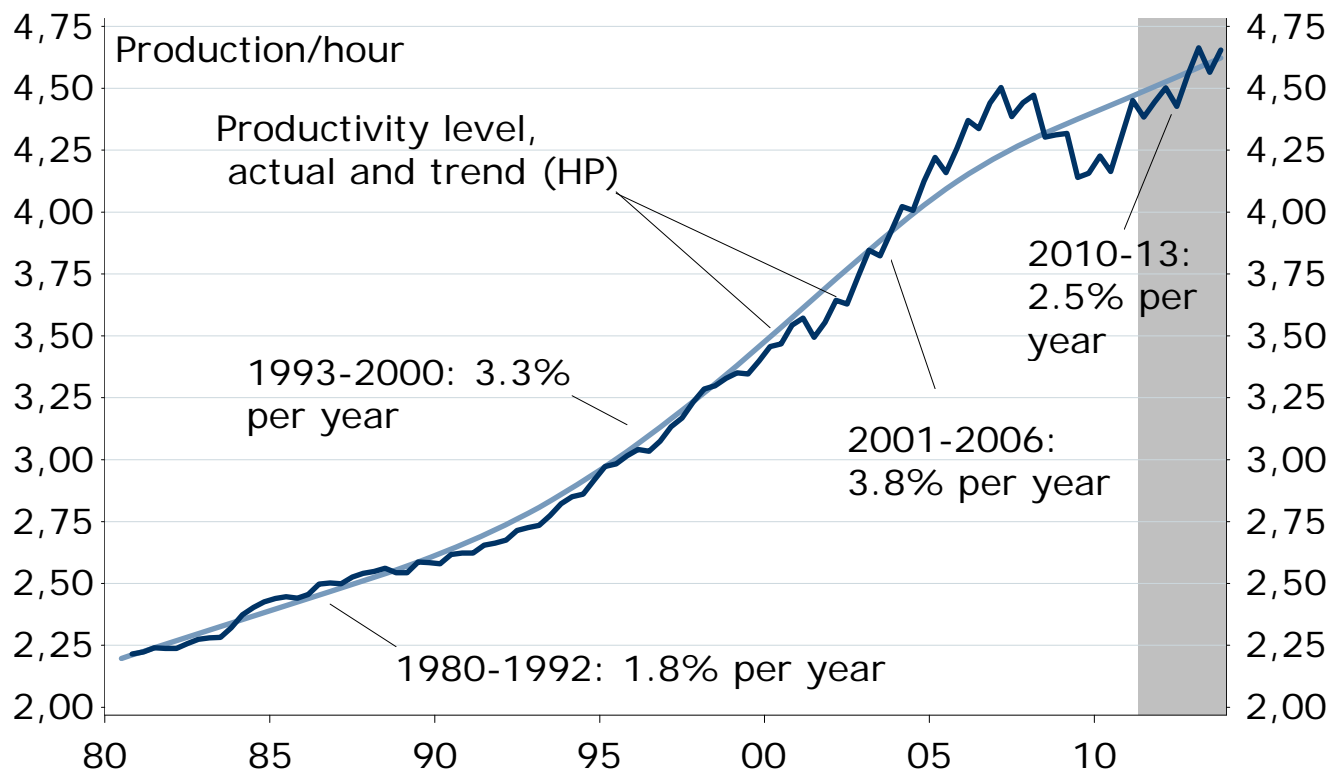


BRICs increasingly important export market

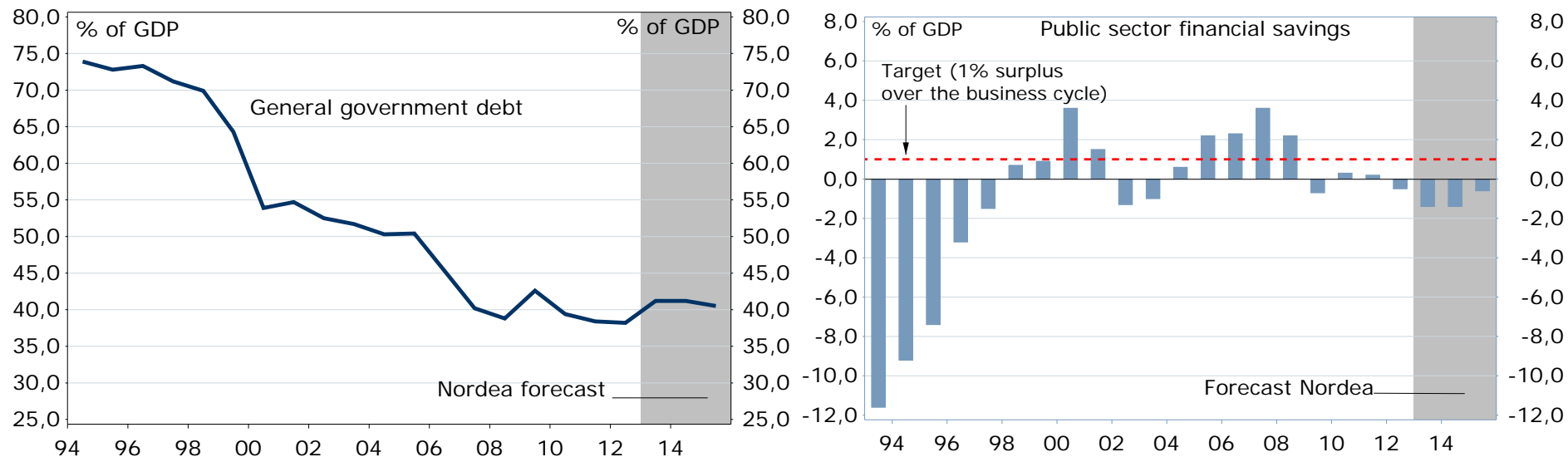
- Exports to the BRICs exceeded exports to the US last year
- The slowdown in Europe has hit Swedish exporters. We forecast a pick-up as from H2 2013.



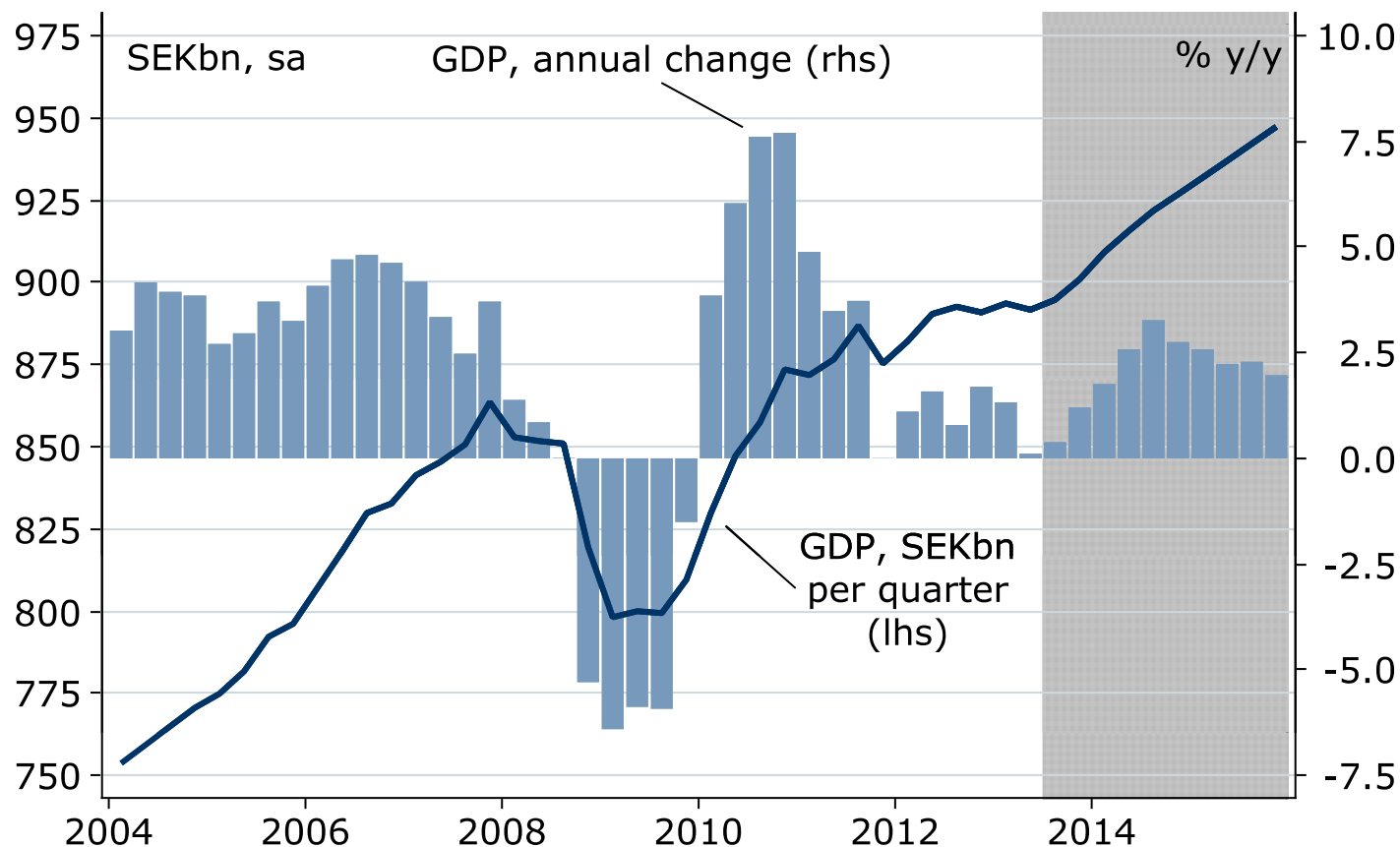
Competitive business sector



Solid public finances



Swedish activity still subdued

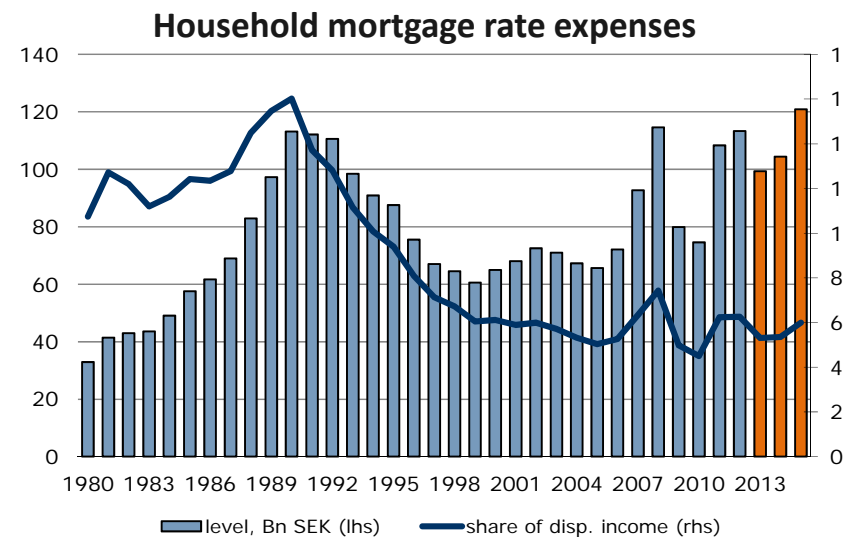
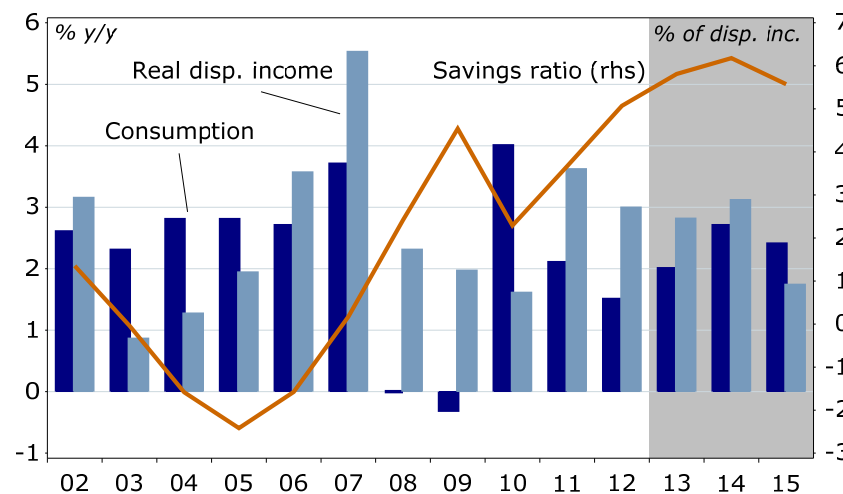


Source: Nordea Markets and Macrobond

Household consumption holds up the economy

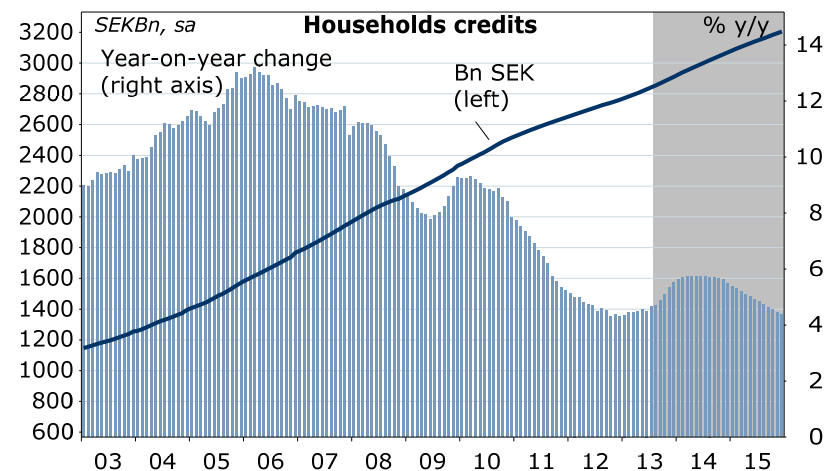
Strong consumption trend to continue:

- Real purchasing power
- Increasing asset prices
- Savings initially high
- Expansionary fiscal and monetary policy 2014

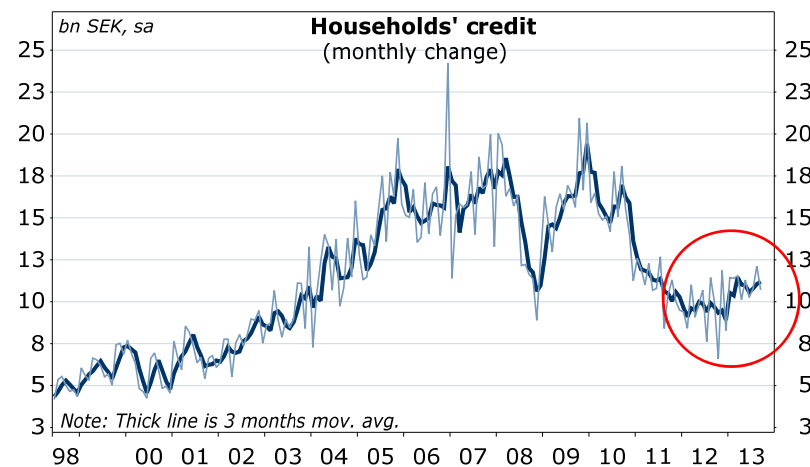


Credit growth – still important for monetary policy

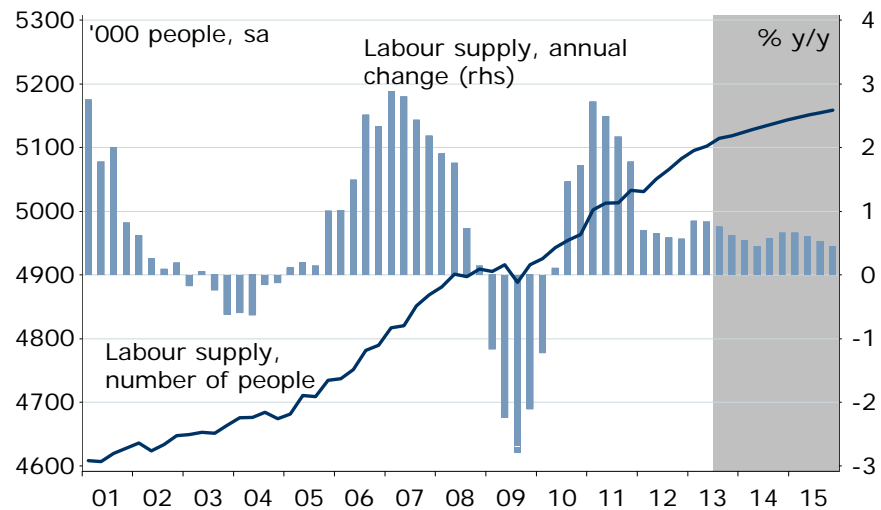
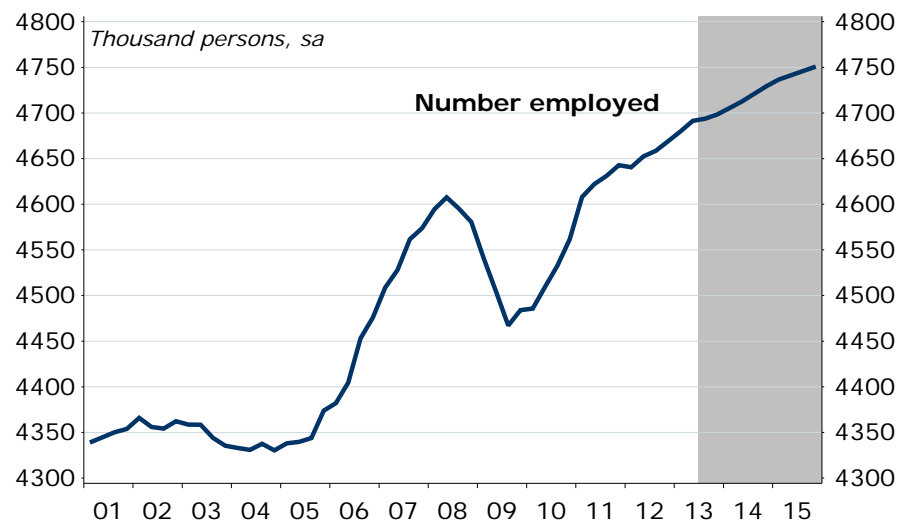
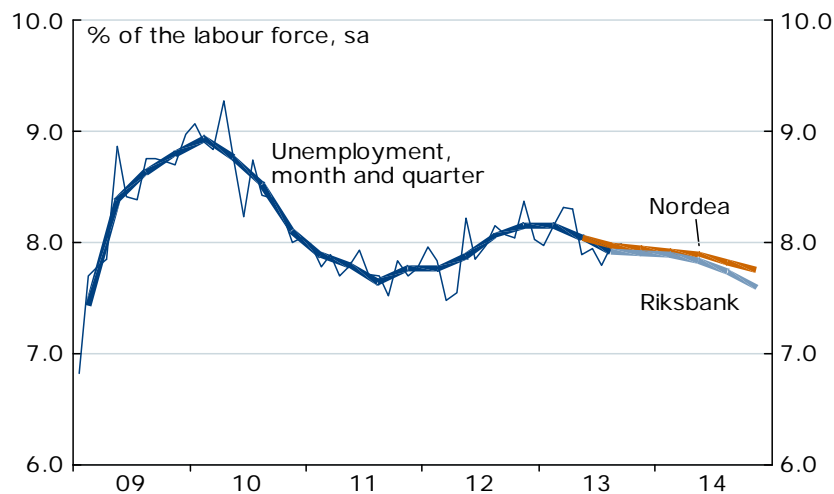
- FSA in charge for new tools on financial stability (counter cyclical buffers etc).
- Households indebtedness remains on the Riksbank's radar:
 - (i) Falls within current mandate
 - (ii) Details still lacking on buffers but will likely not dampen credit growth.
- **Conclusion:**
Authorities will not let credit growth go again



Note: Projections are based on the historically strong relationship between mortgage rates (with some lags) and credit growth. We forecast flexible mortgage rates to pick up to close to 4 percent at the end of 2015. If mortgage rates were to stay at current level, the model predicts credit growth to increase and level out at 6%.

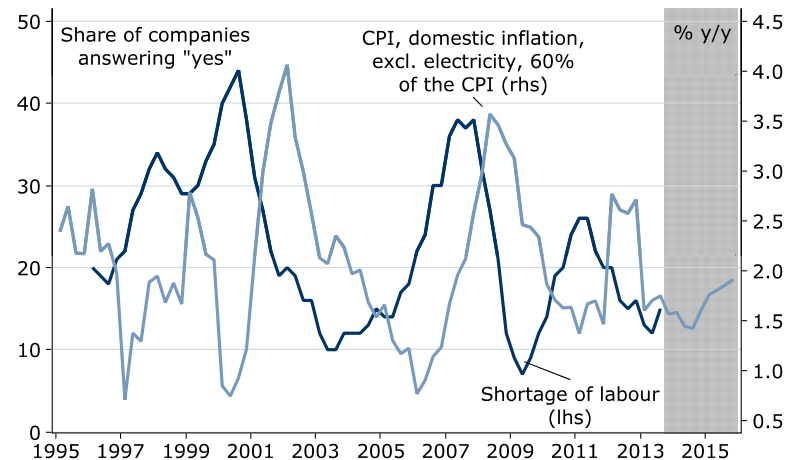


Surprisingly strong labour market

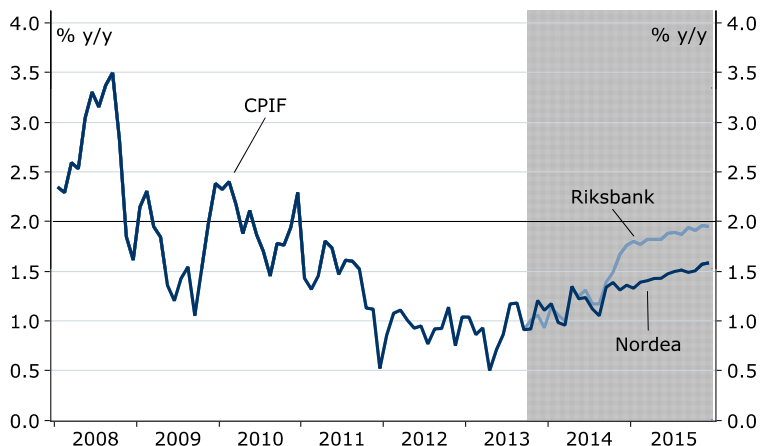


Inflation to remain low

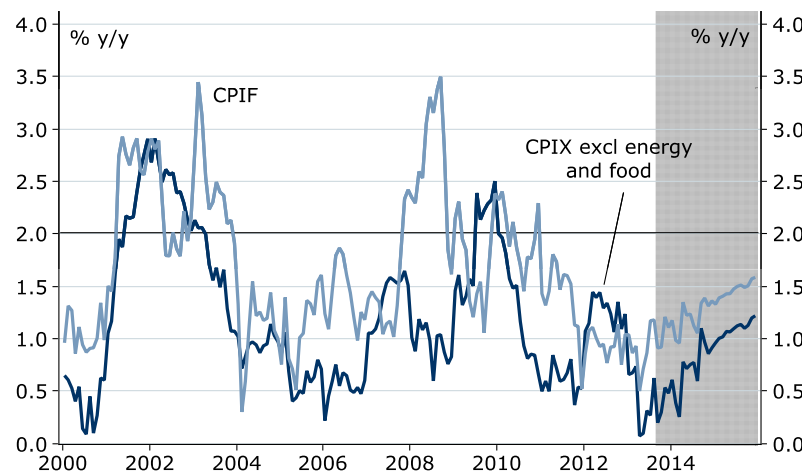
- Domestic inflation currently running at 1.5%
- ULC less than 2% per year 2014-15
- Imported *deflation* remains
- CPIF-inflation below the 2% target also in 2015



Source: Nordea Markets and Macrobond



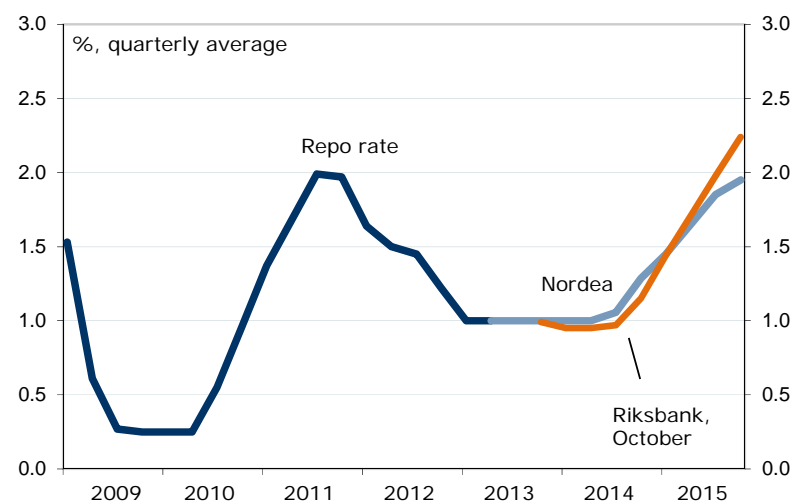
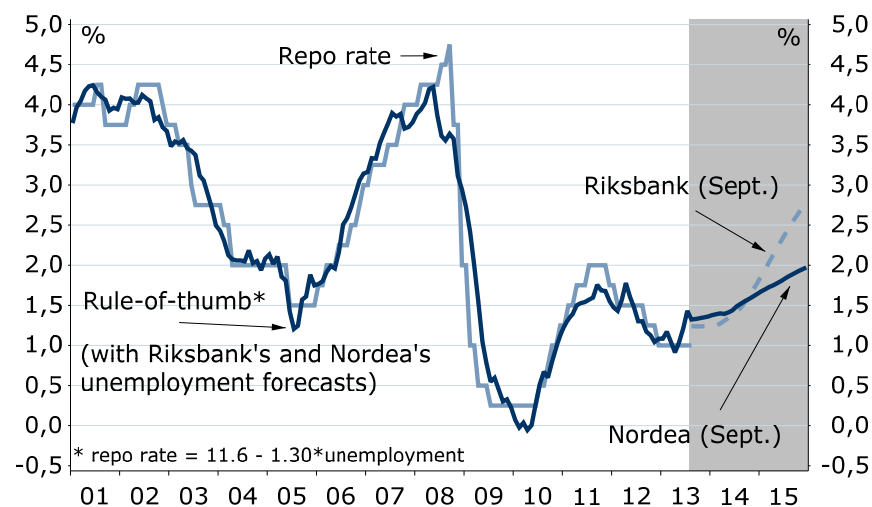
Source: Nordea Markets and Macrobond



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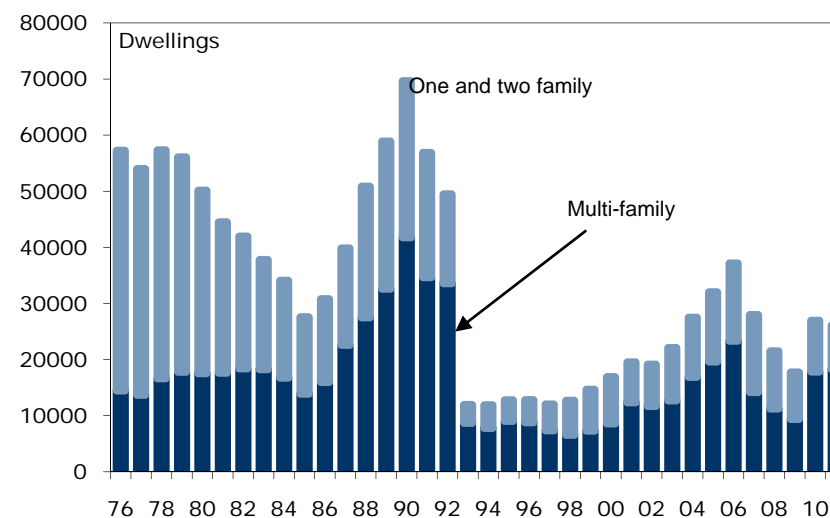
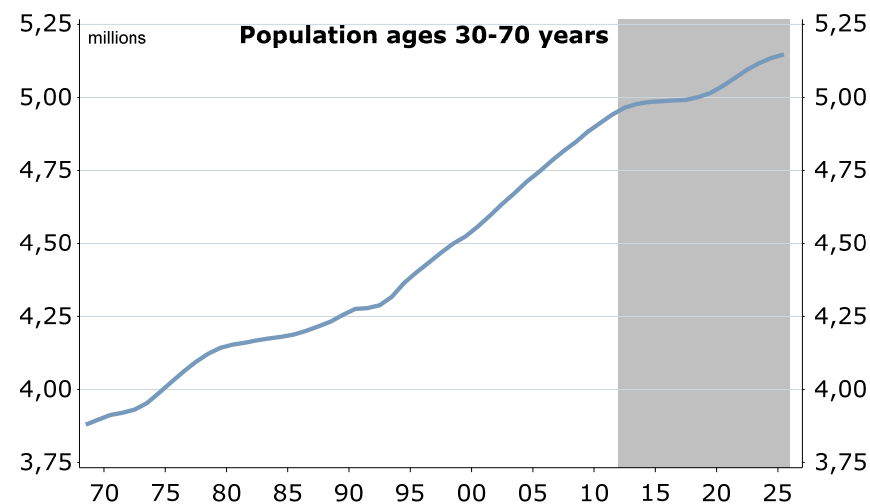
Monetary policy

- The Riksbank is governed by six executive Governors. Sweden has a flexible inflation target regime, which means that besides the 2%-inflation target also resource utilization should be stabilized. In recent years also, financial stability and household indebtedness are taken into account.
- Unemployment remains a very good guidance for the repo rate (see chart). Historical relationship suggests that repo rate currently should be around to 1.5%.
- The Riksbank also publish forecasts on their policy rate which is a fairly good guidance for the next-coming meeting, but provides no value beyond that.
- We forecast that the repo rate will stay unchanged until September 2014 when we expect the Riksbank to start hiking. We only foresee gradual increases so that the repo rate ends at 1.50% in 2014 and 2.00% in 2015.



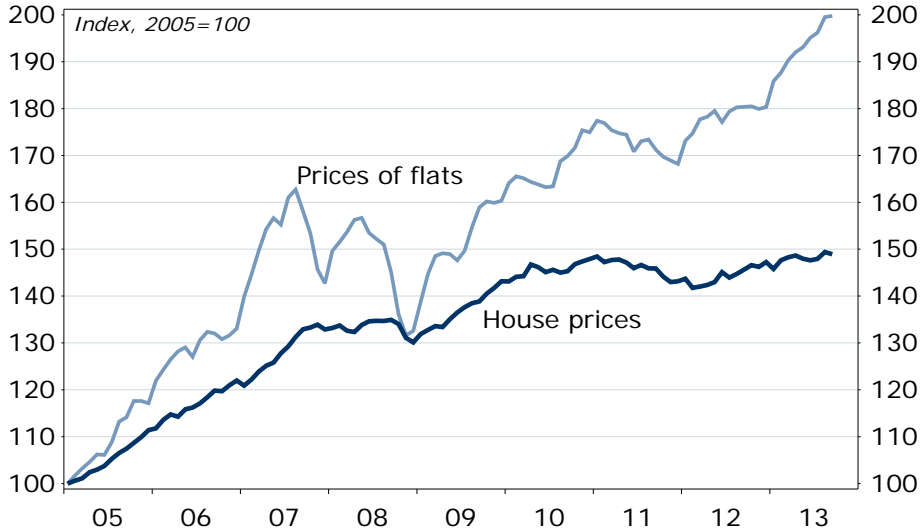
House prices motivated by demand and supply

- Demand has increased a lot over last 20 years
 - *Population growth*
 - *Urbanization. Trend strongest in Europe according to Eurostat*
- Supply has not responded to price increases (due to market regulation)



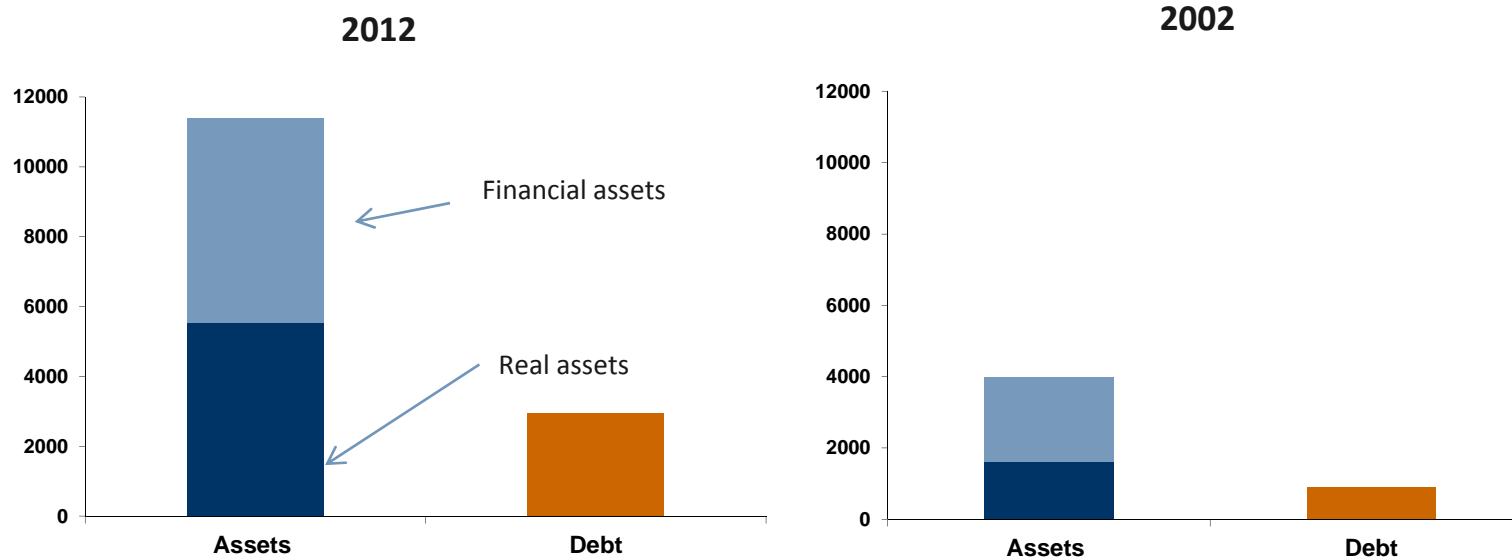
Housing prices on the rise

- House prices increase slowly
- Prices on owned apartments at all-time-highs
(Value of turn-over of apt > houses)



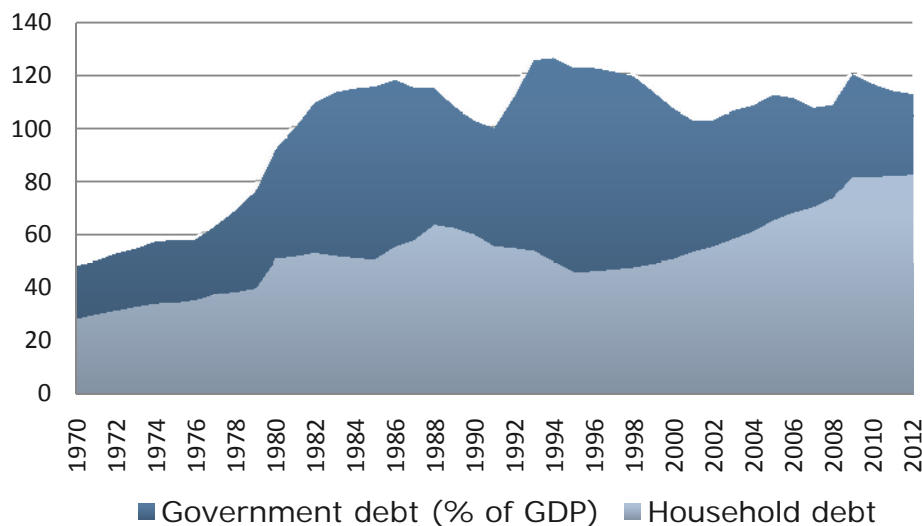
Large but strong balance sheet

- Households' assets 650 % of disposable income
- Overall, household's very solid but of course large balance sheets (debts) pose risk to consumption (the higher the debt, the higher volatility in private consumption)

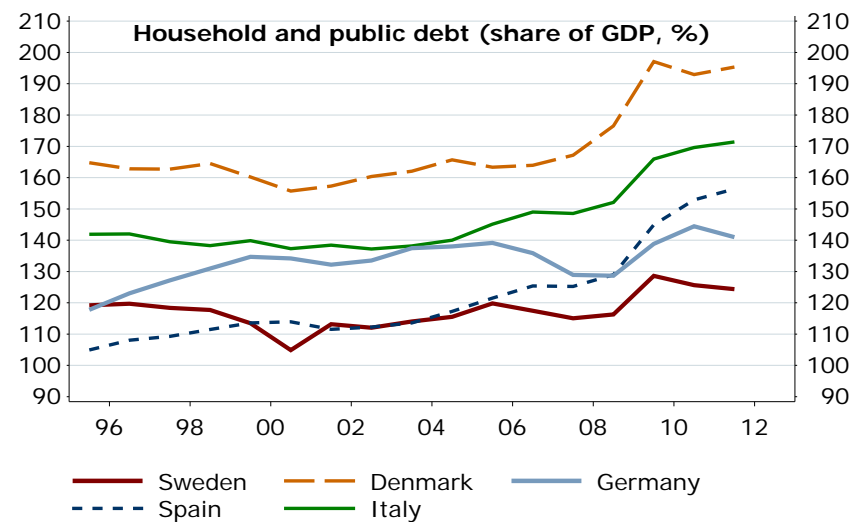


...and overall debt seems not that high

Overall debt fairly stable since the 80's...

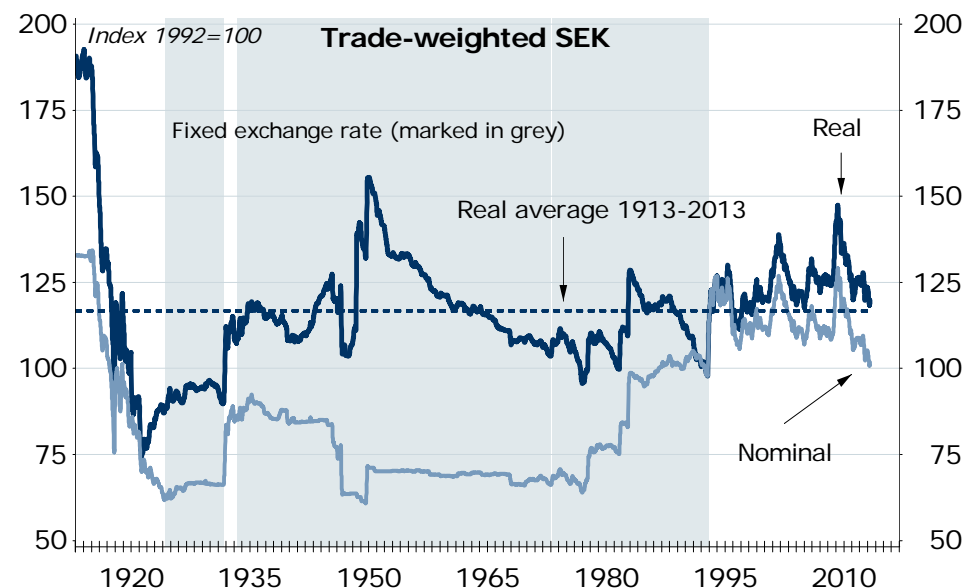
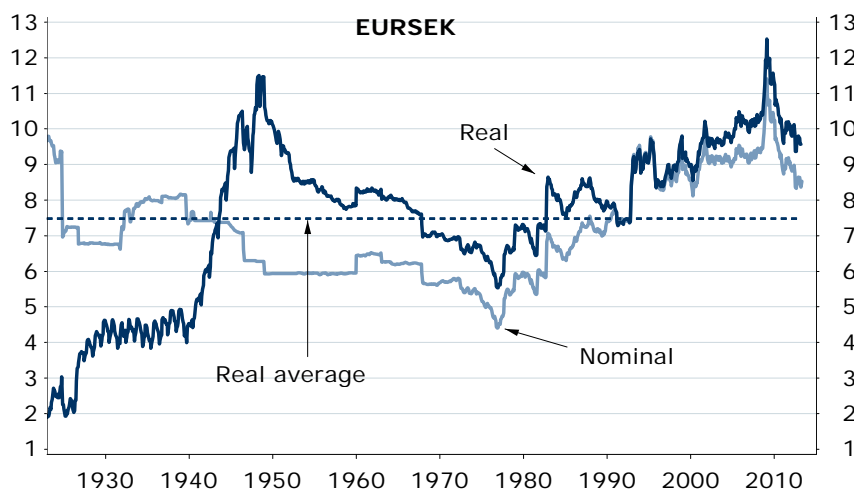


...and is low in an international comparison



SEK in a hundred years

- Real SEK close to its long-term average
- => (i) No need for the SEK to correct.
(ii) Competitiveness and purchasing power at normal levels in a historical perspective.



Note 1:

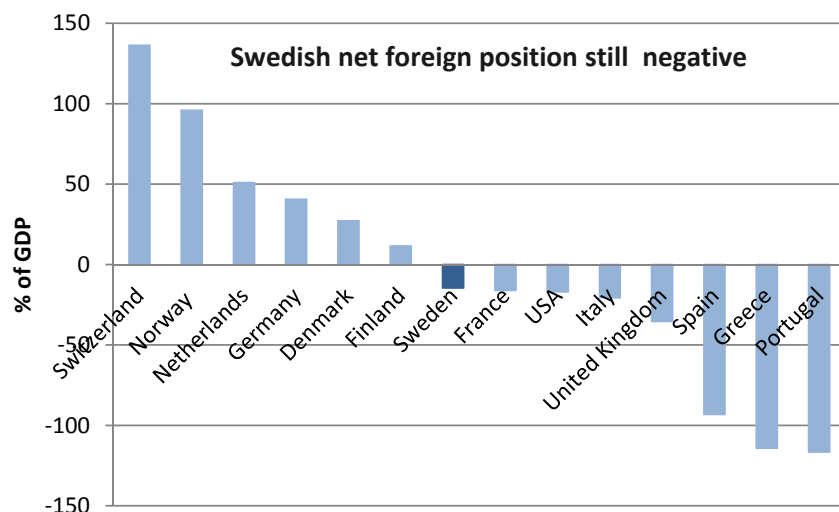
The Swedish krona (SEK) was introduced in 1873 with the establishment of the Scandinavian Currency Union, but due to a lack of data we disregard the period before 1913.

Note 2:

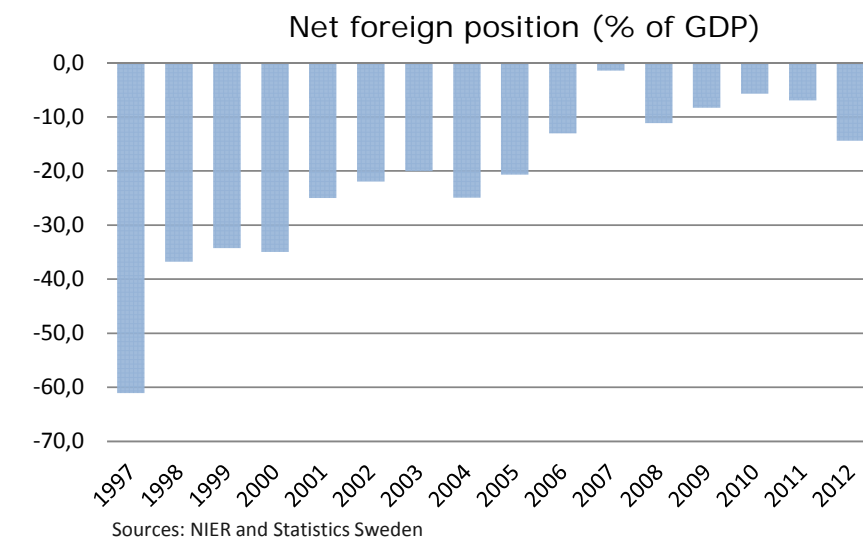
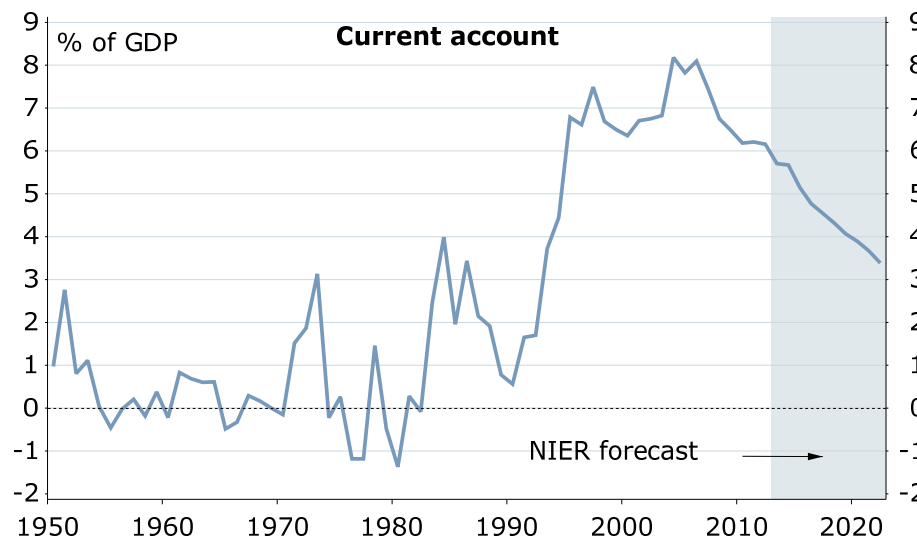
The National Institute of Economic Research's SEK index during the period 1992-2013 (KIX) and the Riksbank rate during the period 1913-91. The real exchange rate has been calculated by adjusting for inflation using Swedish and rival countries' CPI data (weighted according to the KIX). During the 1913-91 period the rival countries' CPI data are based on inflation rates in the US, Germany, Denmark, Norway and Belgium.

Current account surpluses - no argument for SEK appreciation...

- Sweden has run current account surpluses for 30 years, but the SEK strengthening has stayed away - why?
- Foreign net position has improved in recent years but is actually still negative.
- The current net foreign position signals stable or somewhat depreciation SEK ahead.



Note: International investment position (IIP) measures the financial assets and liabilities position vis-à-vis the rest of the world.
Sources: Eurostat and IMF



Sources: NIER and Statistics Sweden

...and neither are the terms-of-trade

- Since 1970 trends in real SEK and terms-of-trade (export/import prices) fairly correlated. But note that over shorter periods, even years, they have moved in opposite directions.
- NIER forecast stable terms-of-trade, or marginally decreasing, in coming years. This suggest no further appreciation in real SEK.

