

**AIECE Spring Meeting, Berlin 2-3 May 2013**

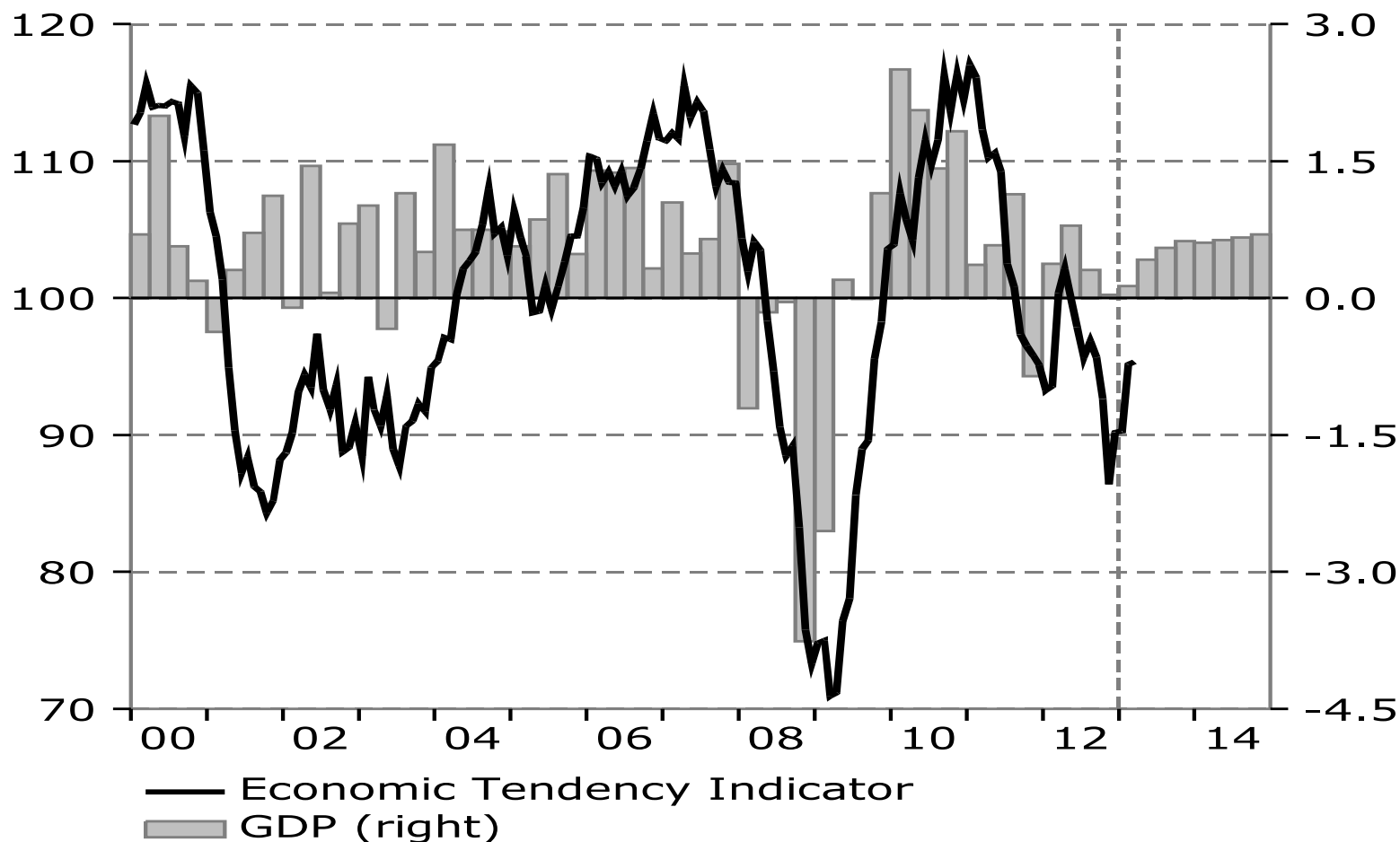
# **Medium Term Outlook for the Swedish Economy**



**Kristian Nilsson, NIER, Stockholm**

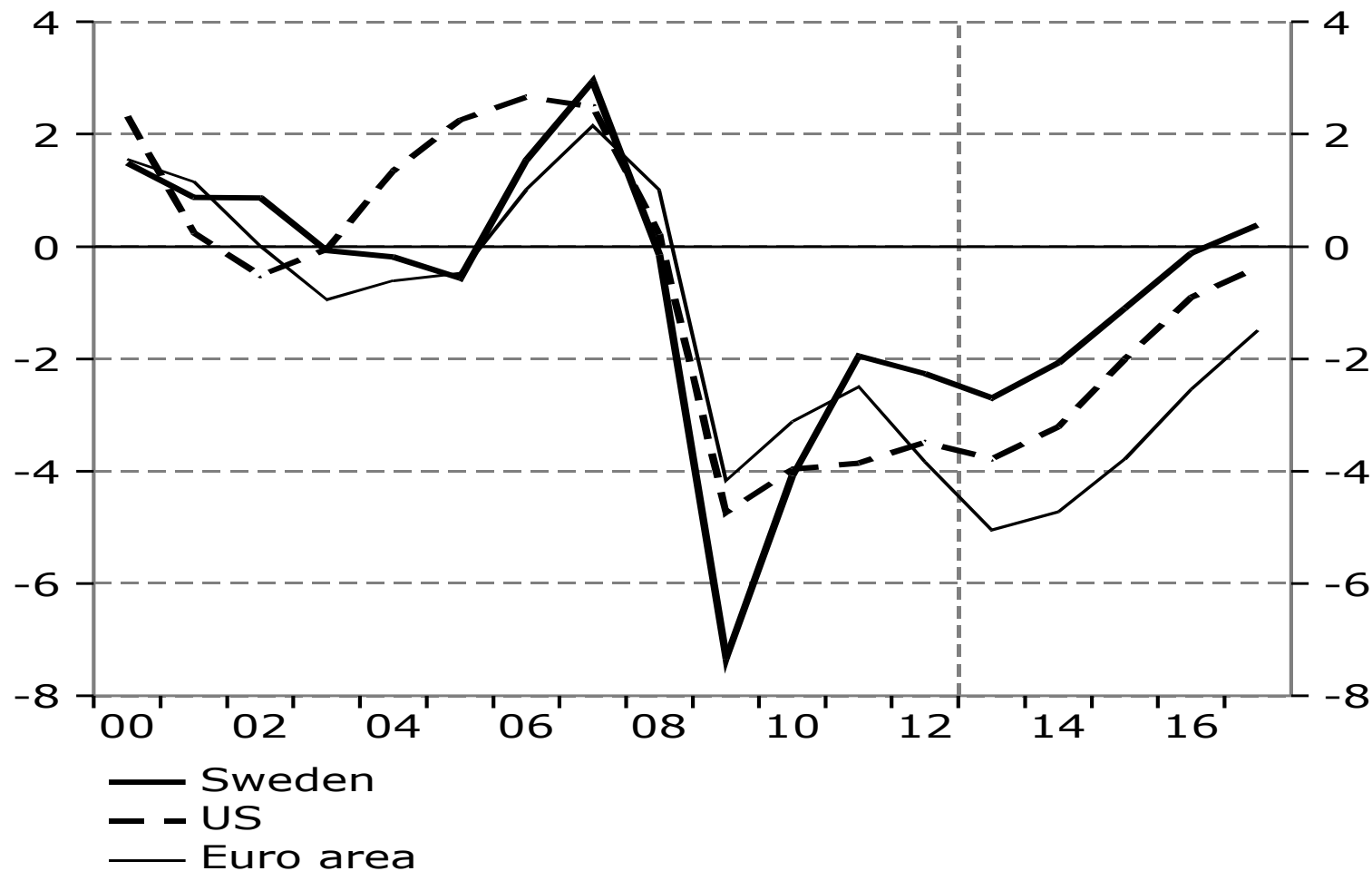
# Sweden hard hit by the international financial crisis

Index mean=100, monthly values and percentage change, seasonally adjusted quarterly values, respectively



# International debt crisis prolong Swedish recovery

Output Gap. Percent of potential GDP



## Potential growth lower than normal

Percentage change unless otherwise stated. Calendar-adjusted values.

	2012	2013	2014	2015	2016	2017
Potential GDP	1.5	1.7	1.8	2.0	2.1	2.1
Potential hours worked	0.8	0.5	0.5	0.5	0.5	0.5
Of which potential employment	0.7	0.6	0.5	0.5	0.5	0.4
Of which demographic contribution	0.4	0.4	0.4	0.4	0.3	0.3
Potential productivity	0.8	1.2	1.3	1.4	1.6	1.6
Potential productivity, business sector	1.5	1.5	1.6	1.8	2.1	2.1

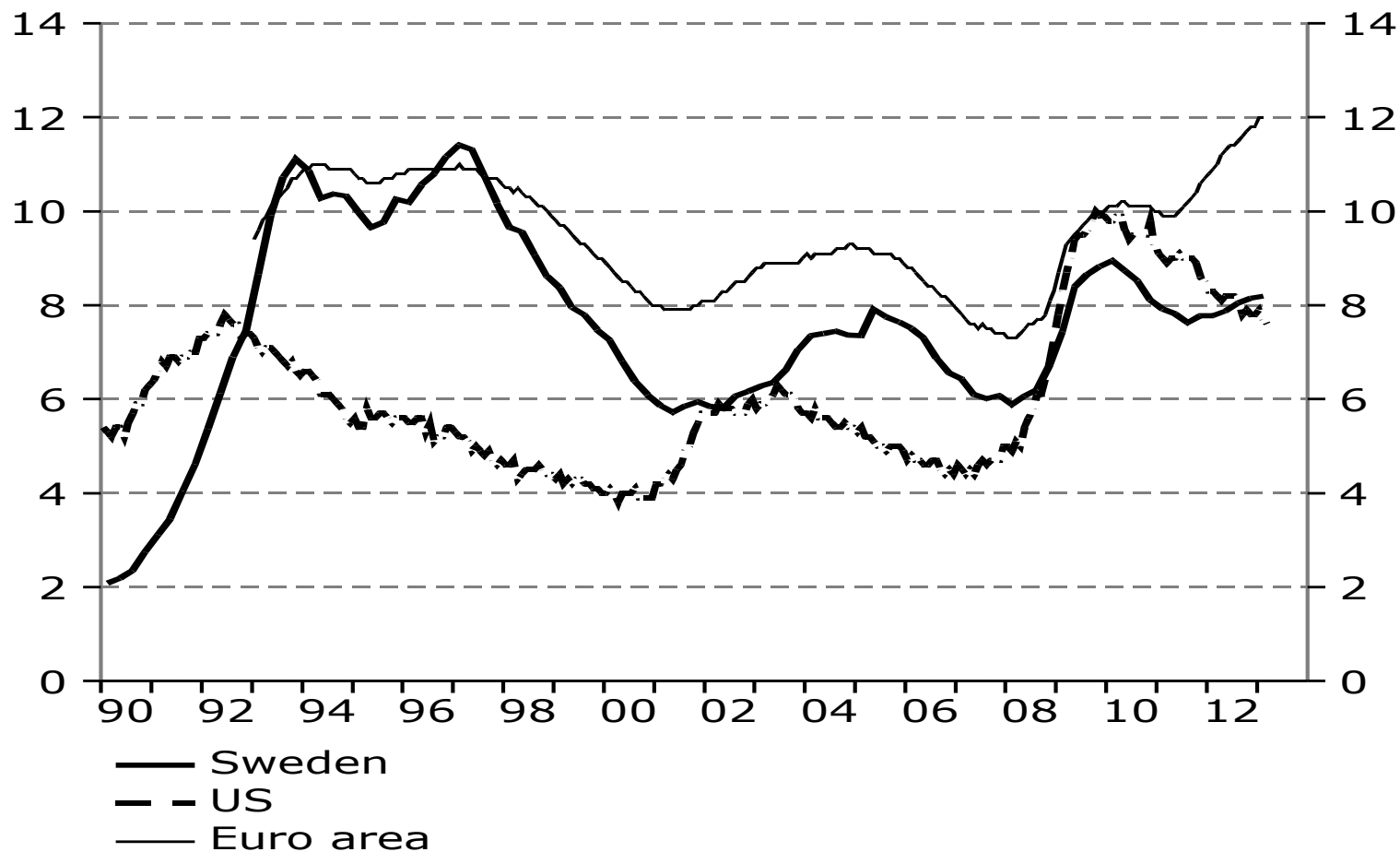
# Reforms boost potential employment

Population 15-74, thousands, quarterly values



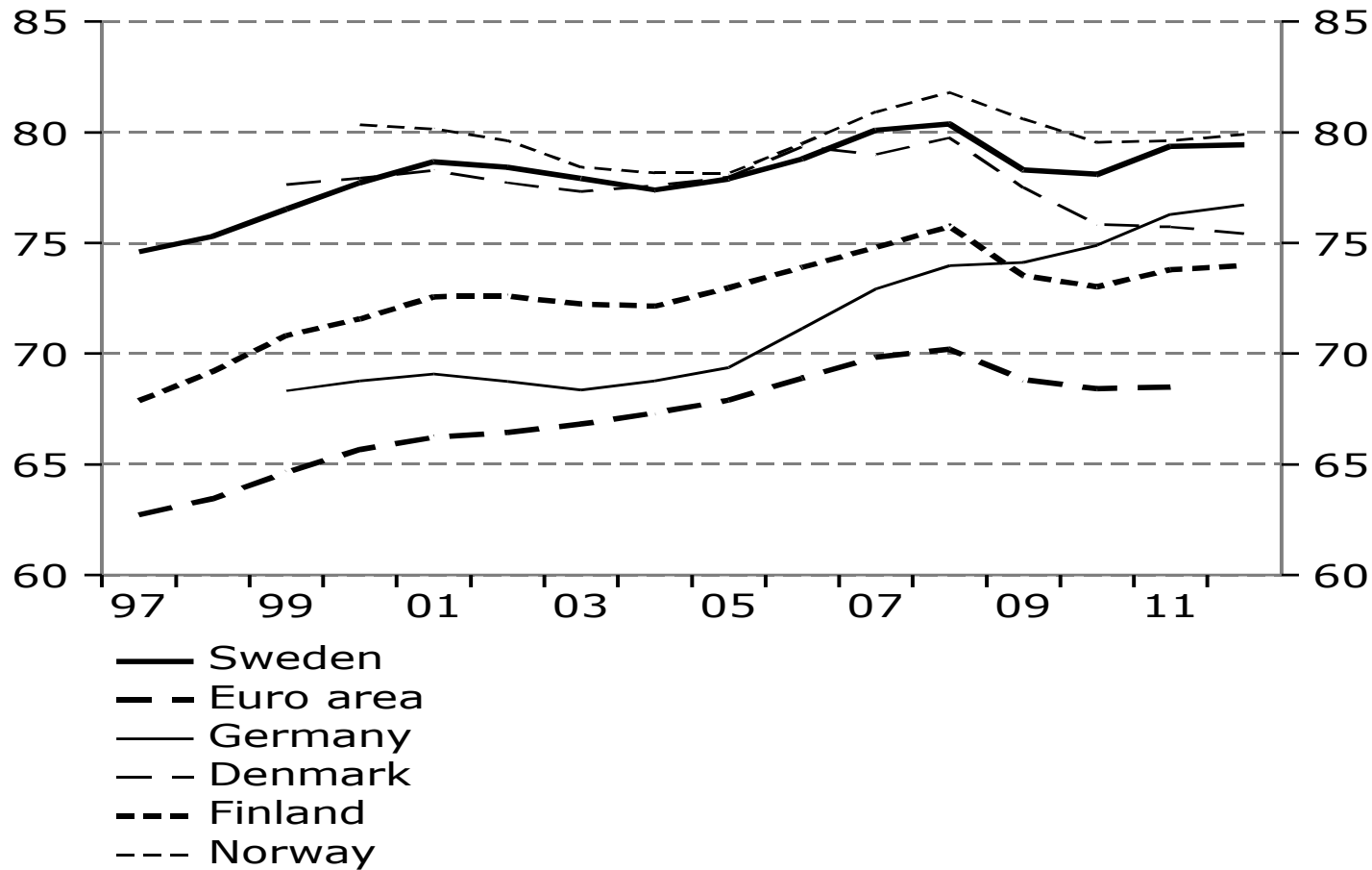
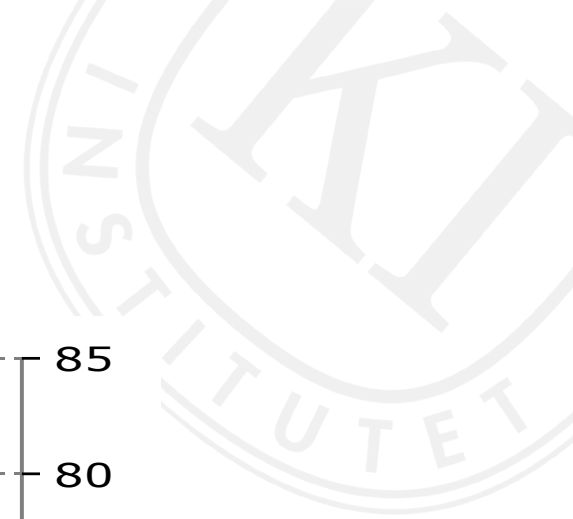
# Unemployment high and rising

Share of labour force, percent, quarterly values



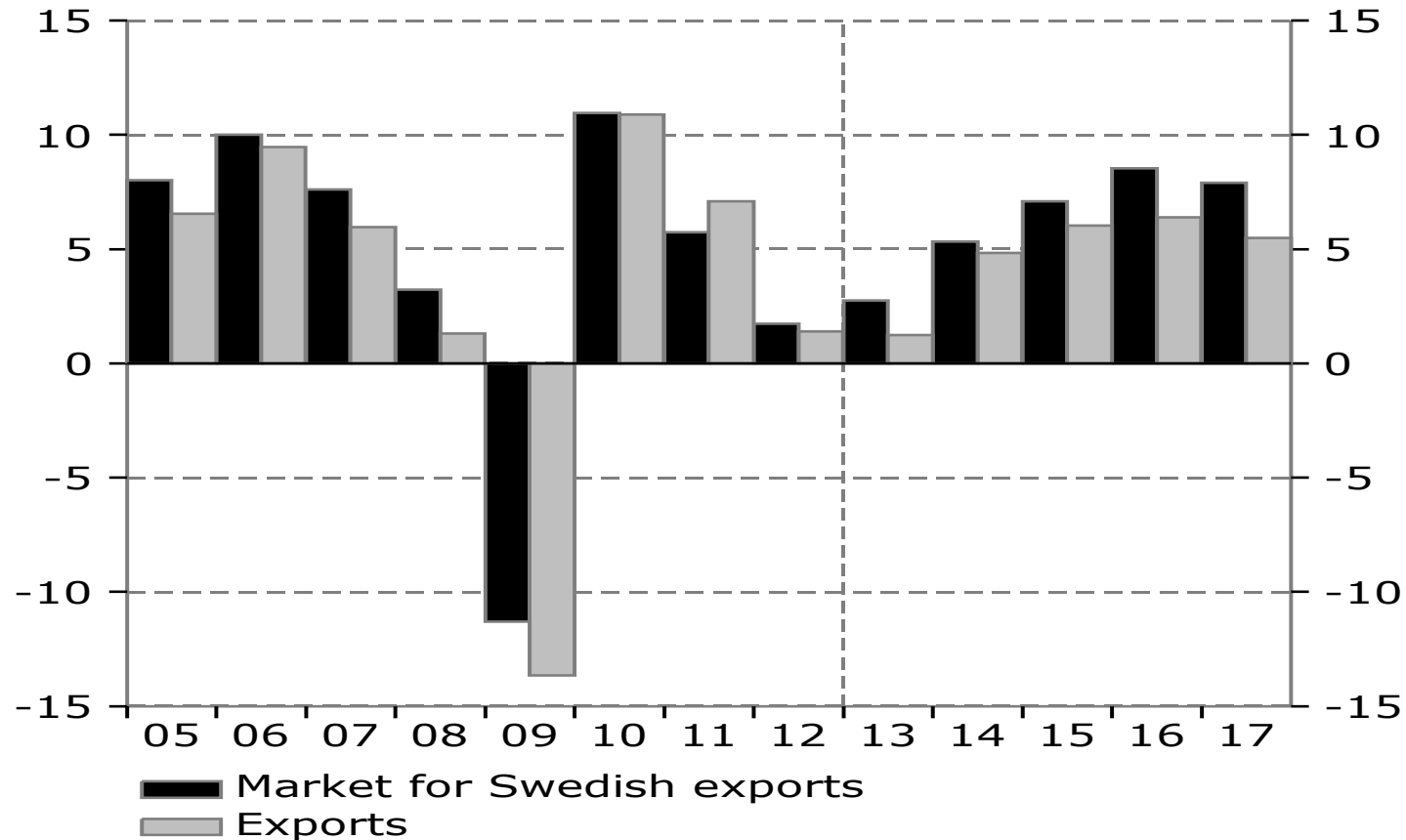
# But employment rate still high

Percent of population 20-64



# Export growth recovers but market shares will be lost

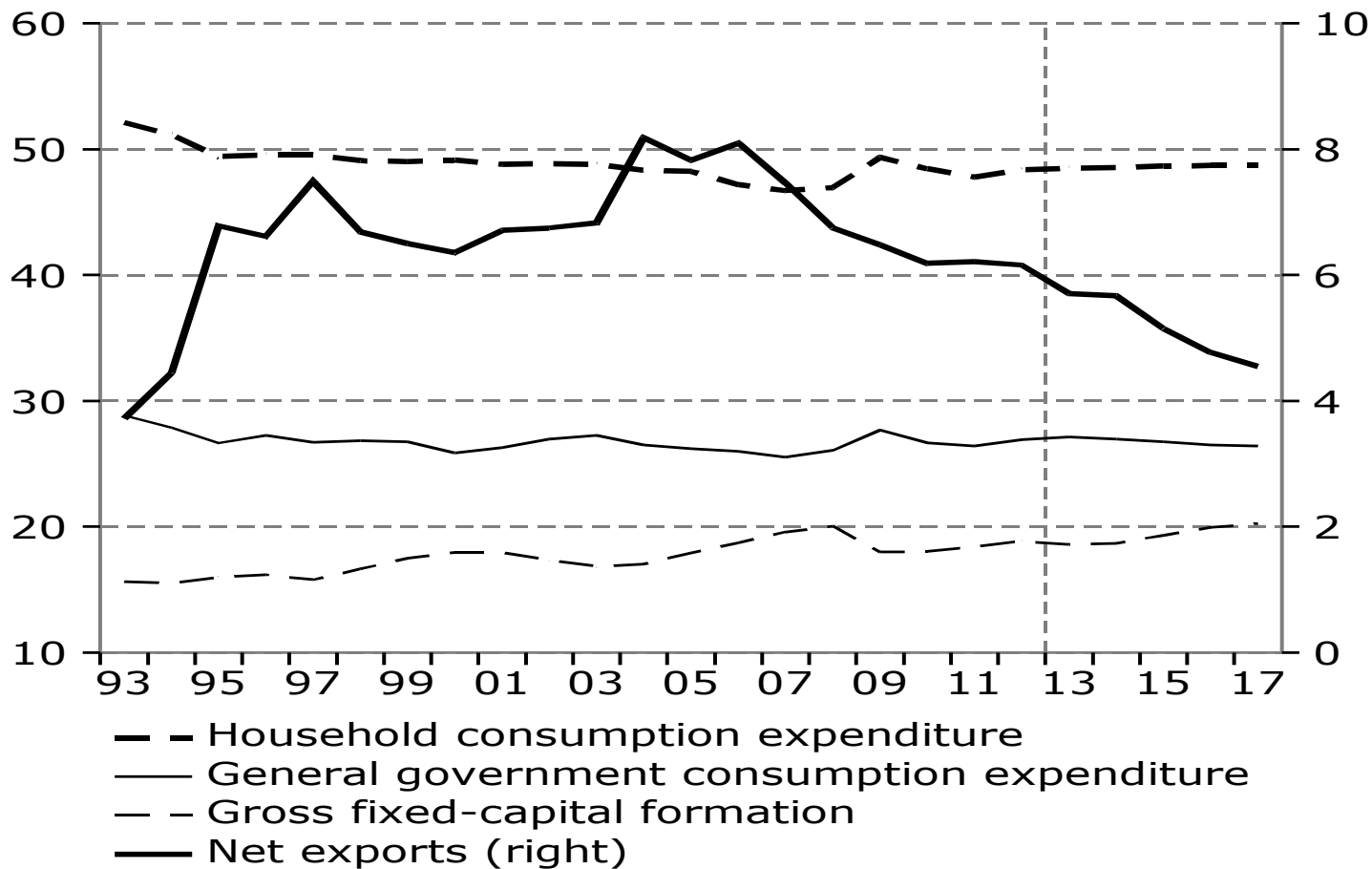
Percentage change





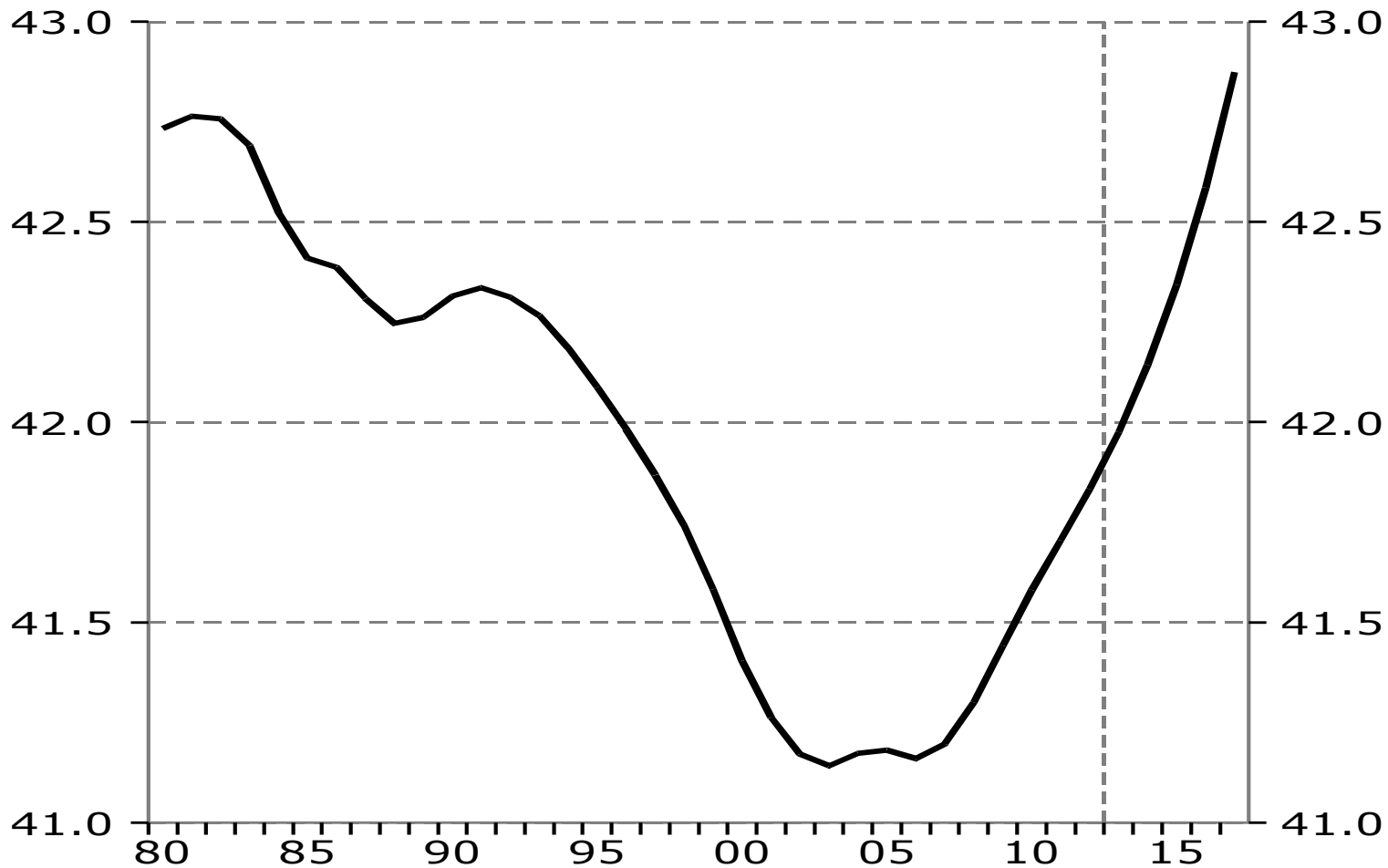
# Domestic demand will drive recovery

Percent of GDP, current prices



# Demographic challenge has begun

Share of population 0-19 and 65+ in total population, percent

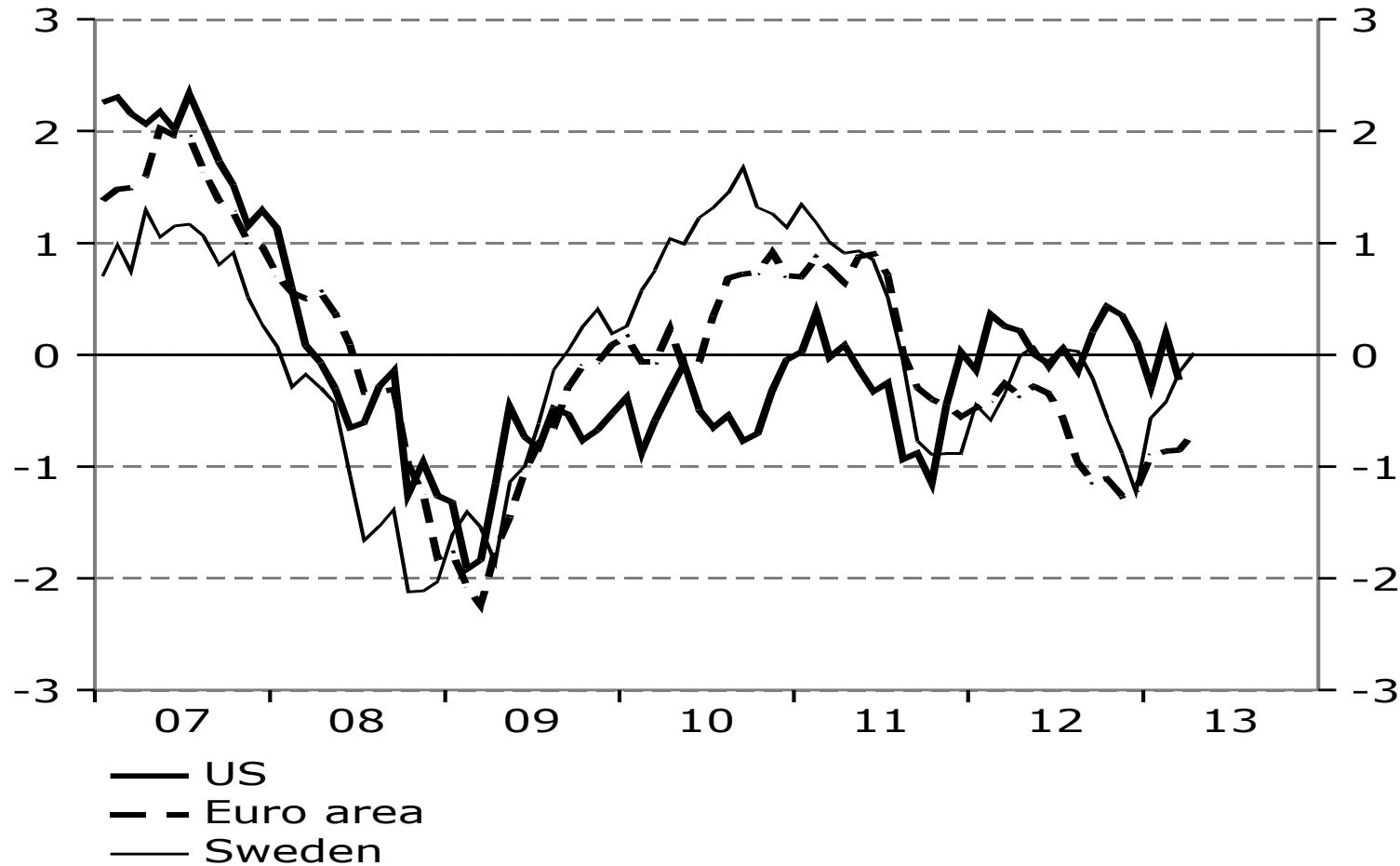


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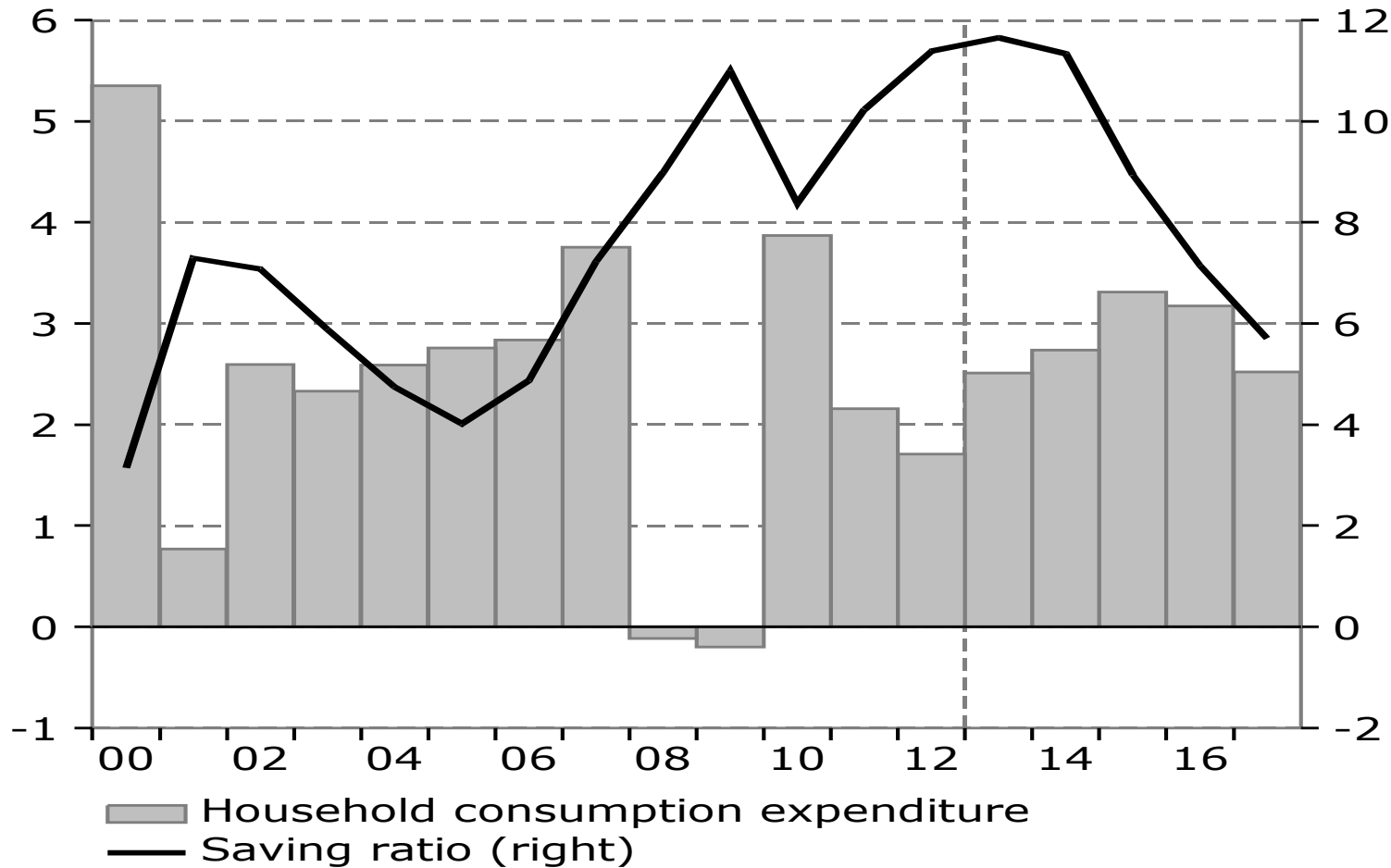
# Swedish consumers are growing more optimistic

Standardized deviation from mean, monthly values



# High household saving will fall back

Percentage change and percent of disposable income, respectively



## GDP by expenditure

Percentage change, constant prices, calendar-adjusted values

	2012	2013	2014	2015	2016	2017
Household consumption expenditure	1.7	2.5	2.7	3.3	3.2	2.5
General government consumption expenditure	1.3	1.0	0.9	1.1	1.2	1.4
Gross fixed capital formation	4.0	1.3	3.8	6.9	6.9	4.7
Final domestic demand	2.0	1.8	2.4	3.4	3.4	2.7
Stockbuilding <sup>1</sup>	-1.1	0.0	0.0	0.0	0.0	0.0
Total domestic demand	0.8	1.9	2.5	3.4	3.4	2.7
Exports	1.4	1.2	4.8	6.0	6.4	5.5
Total demand	1.0	1.6	3.3	4.4	4.5	3.7
Imports	0.6	2.4	5.2	7.4	7.4	6.0
Net exports <sup>1</sup>	0.4	-0.4	0.1	-0.3	-0.1	0.1
<b>GDP</b>	<b>1.2</b>	<b>1.3</b>	<b>2.4</b>	<b>3.0</b>	<b>3.1</b>	<b>2.6</b>

<sup>1</sup>Change in percent of GDP preceding year.

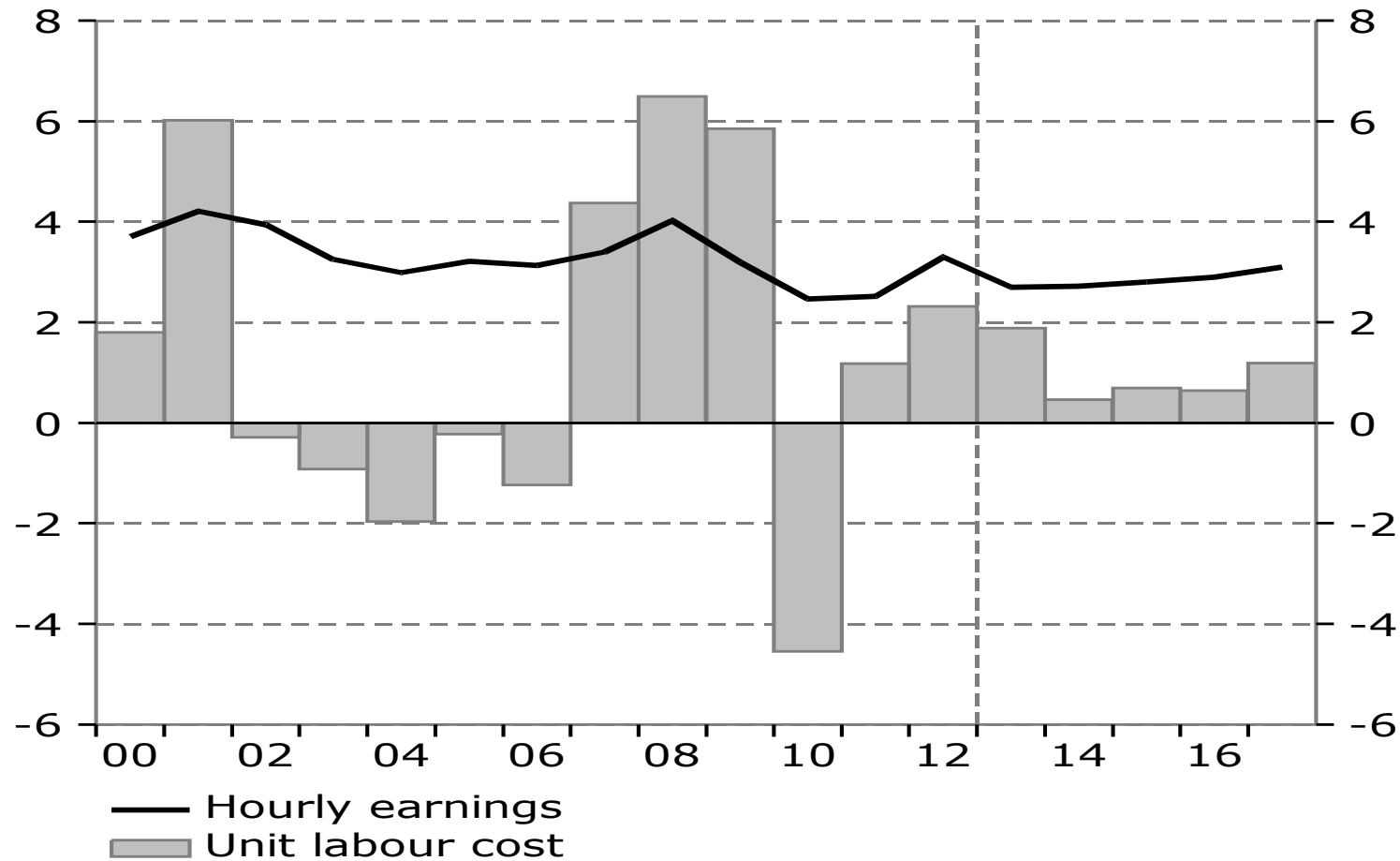
# Weakness on the labour market for years to come

Percent of labour force, seasonally adjusted quarterly values



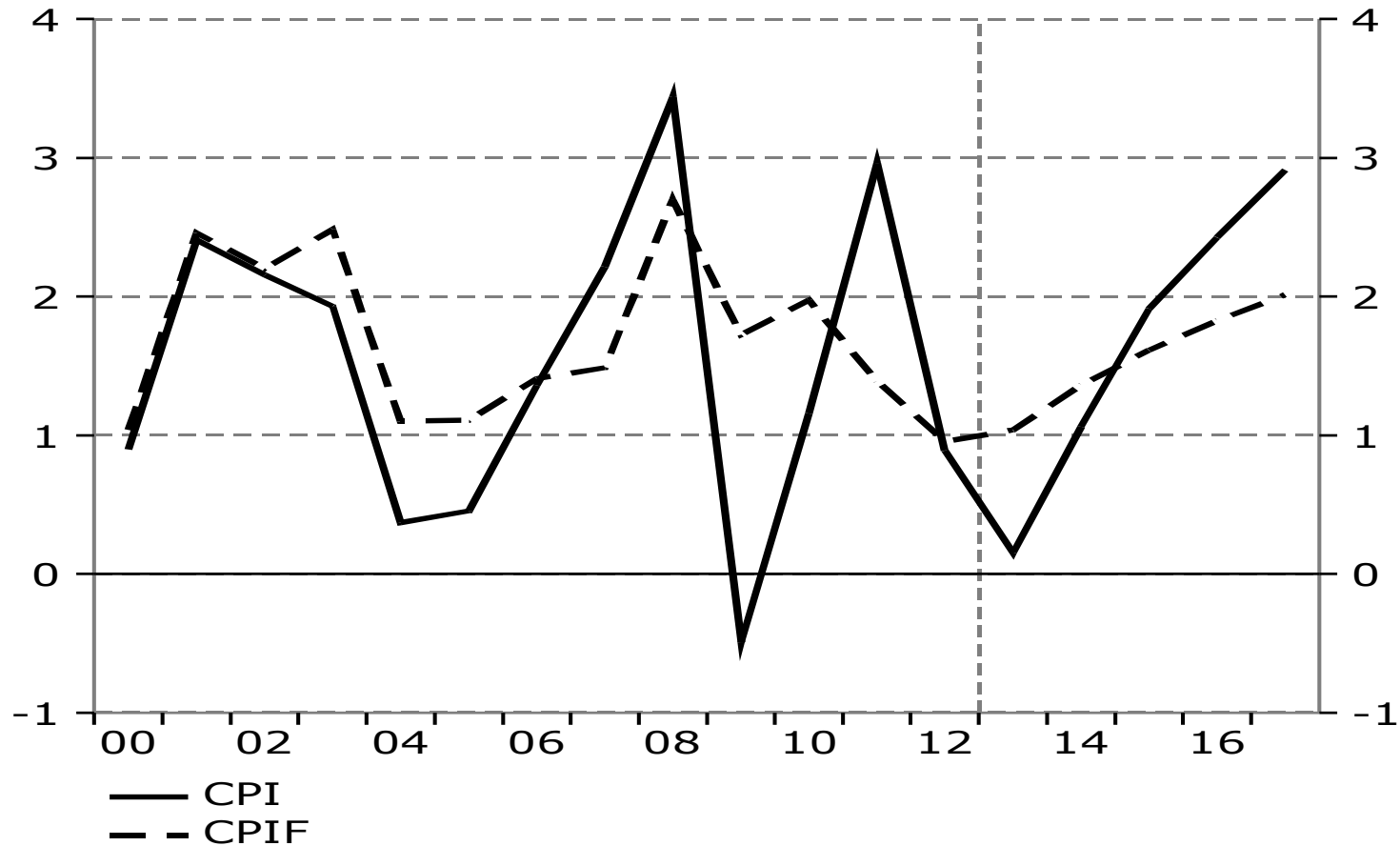
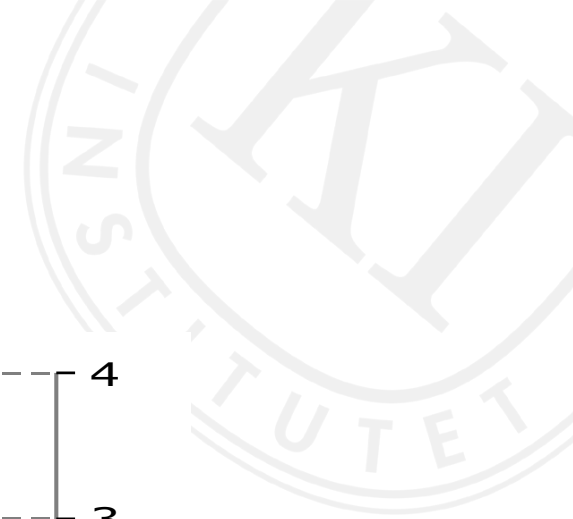
# New wage settlements imply modest wage increases

Percentage change, calendar-adjusted values



# Inflation well below the Riksbanks target

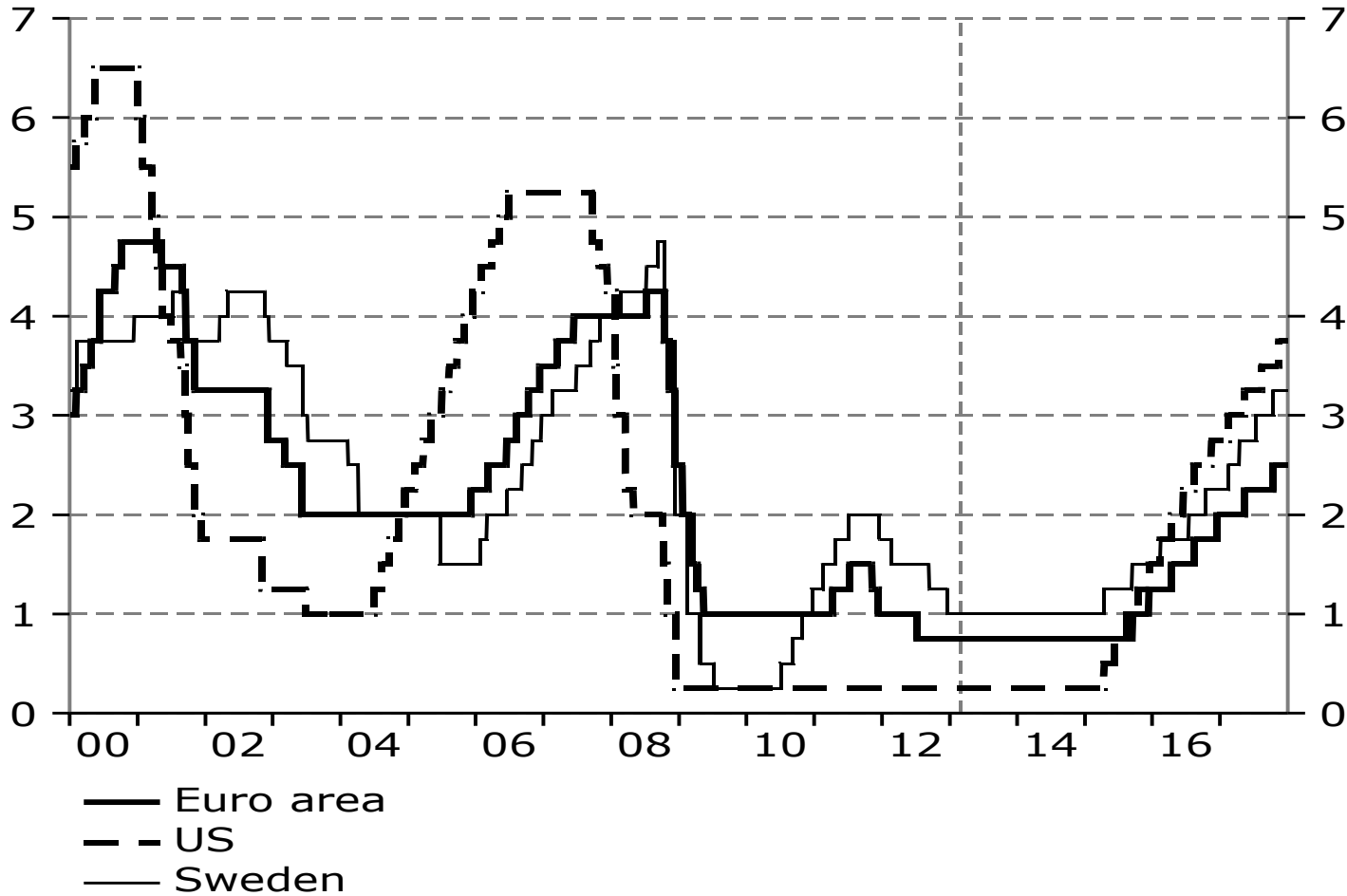
Consumer prices, percentage change





# Riksbank on hold for a long time

Percent, daily values

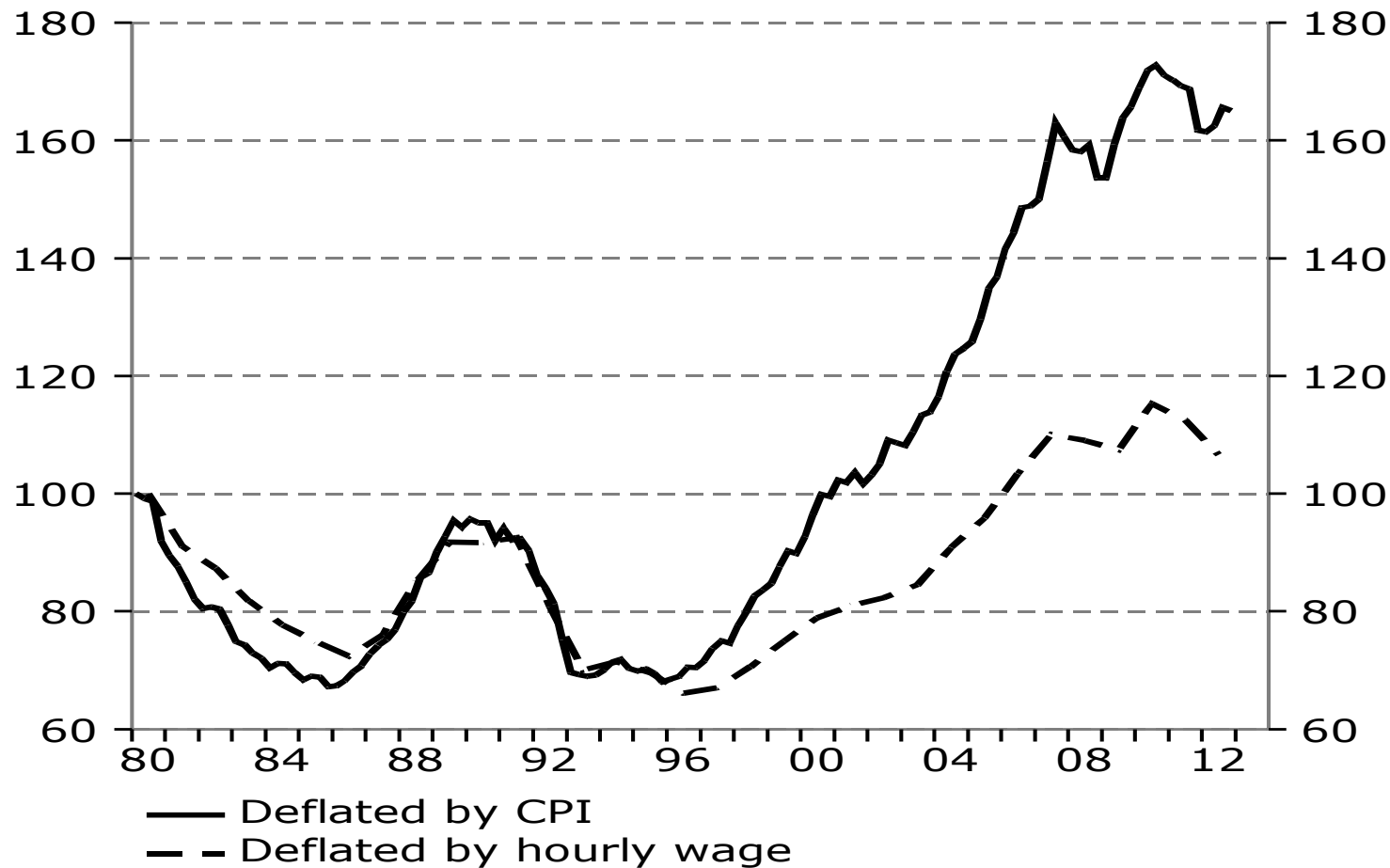


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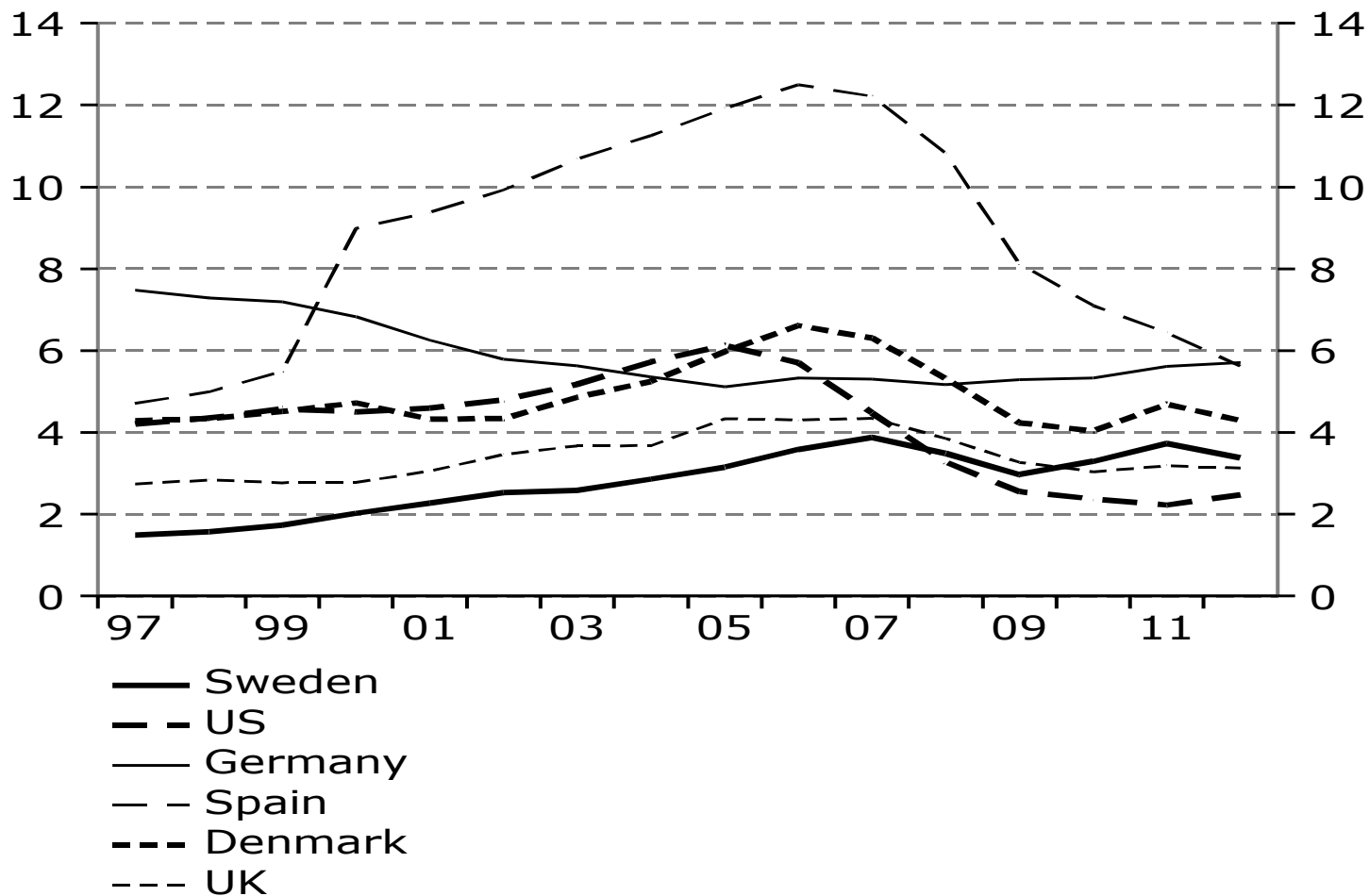
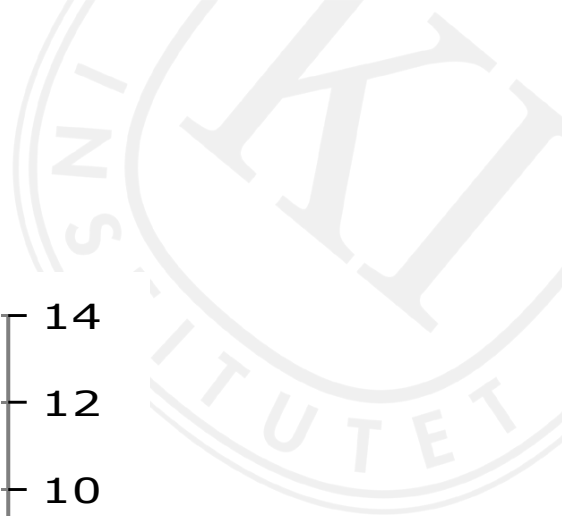
# Are house prices too high?

Index 1980(q1)=100, quarterly values and annual values, respectively



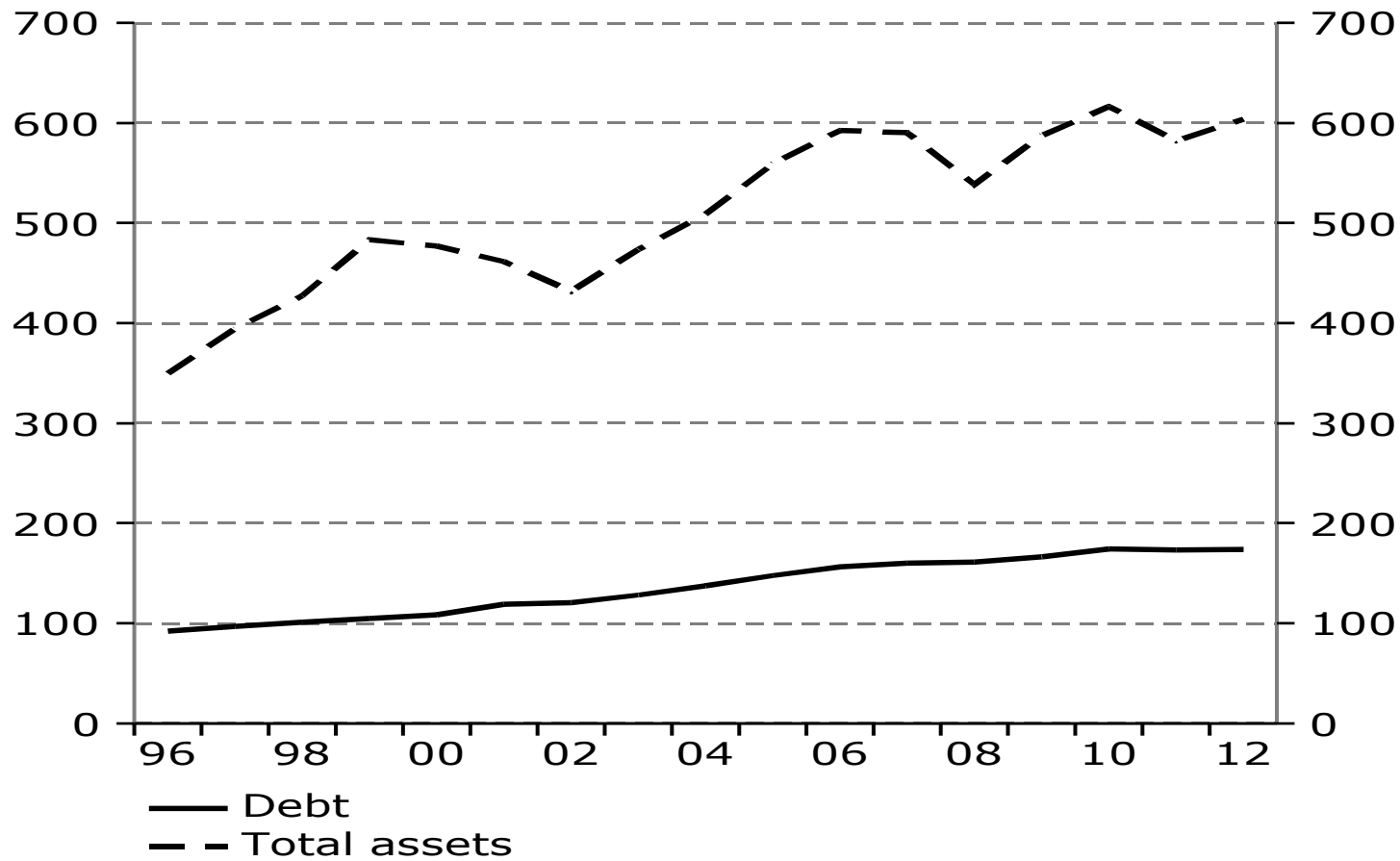
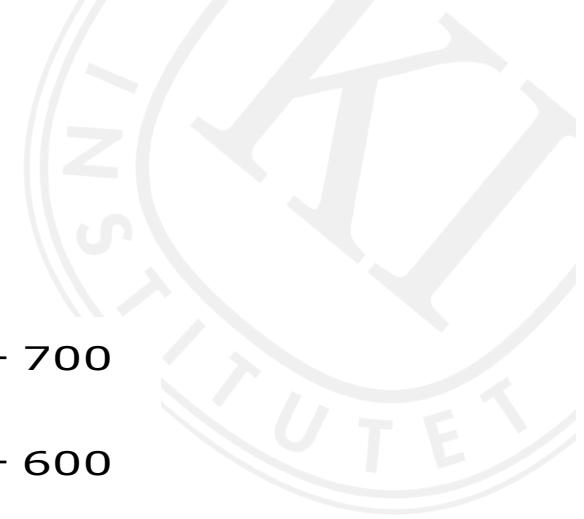
# No boom in residential investments

Share of GDP, percent, current prices



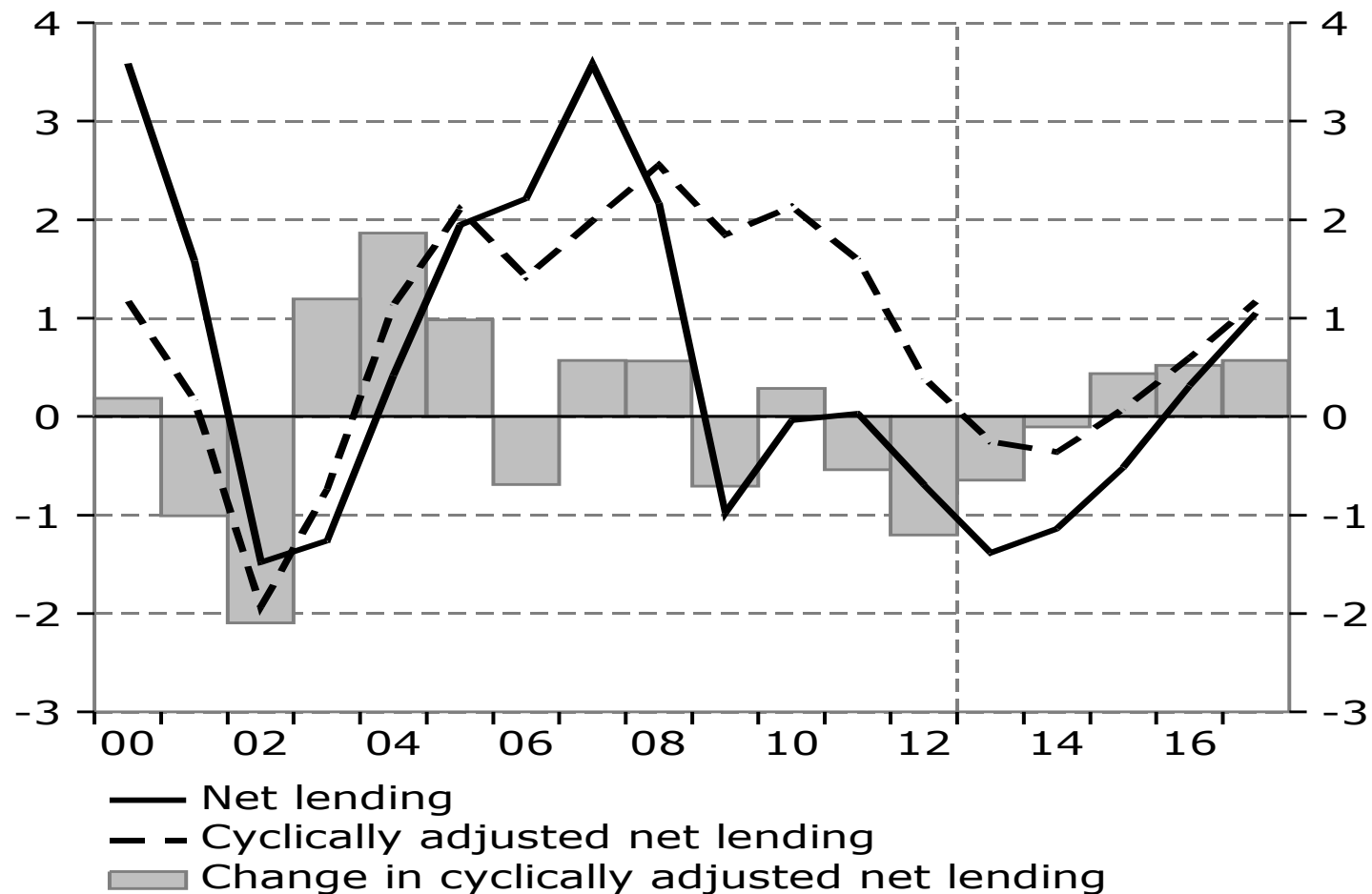
# The average households has a solid balance sheet

Share of disposable income, percent



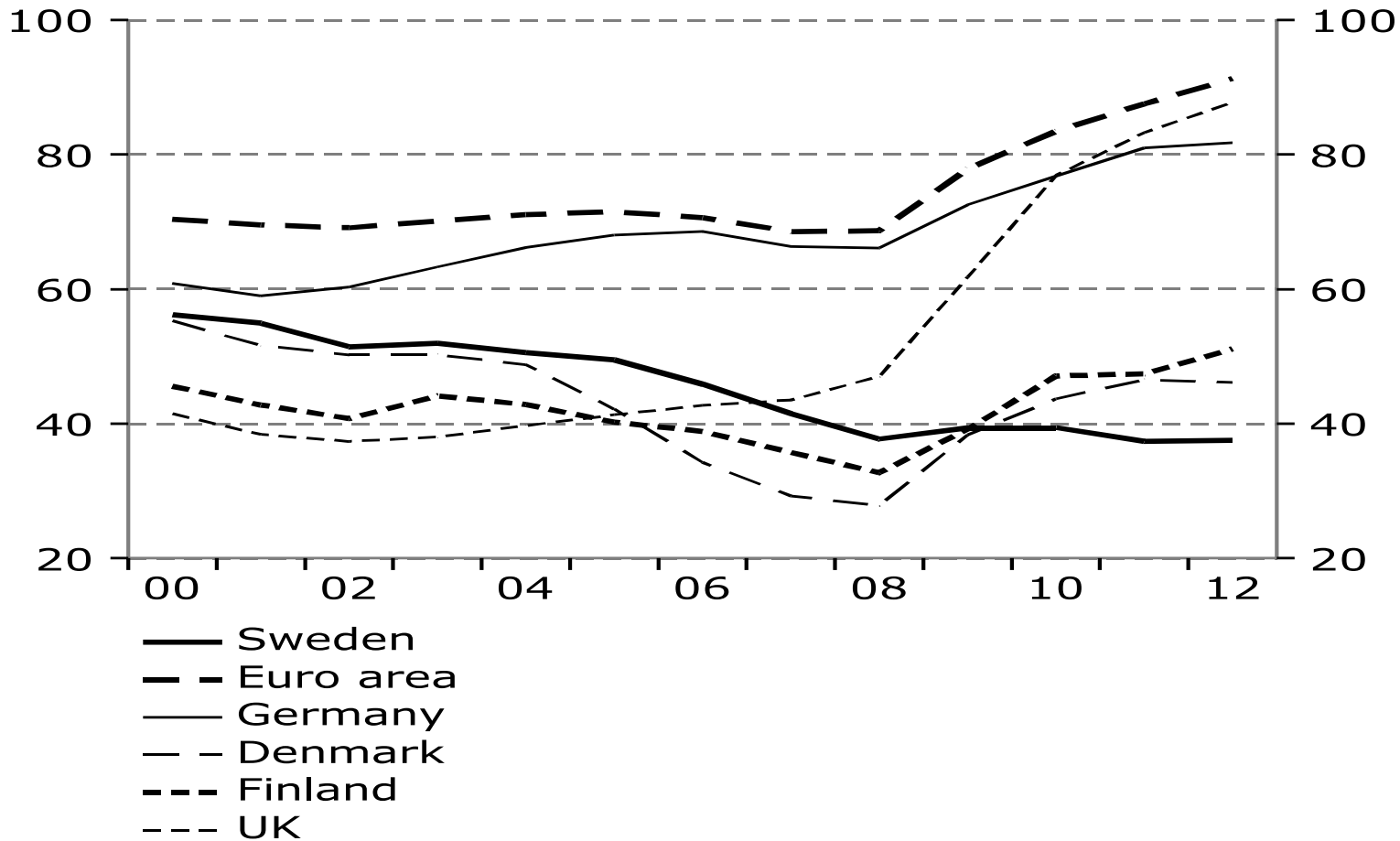
# Austerity measures needed to meet surplus target

Percent of GDP and potential GDP, respectively



# Low Maastricht debt will fall further

Percent of GDP



## Main conclusions and perspectives

- Swedish recovery depend crucially on the international development
- Domestic demand more important for the recovery this time
  - Will households “decouple” from development in the euroarea?
- Supply-side:
  - Labour productivity puzzle: highly uncertain forecast.
  - Will reforms continue to boost potential employment?
- Need for even more expansionary economic policy
  - Little room for more expansionary fiscal policy unless surplus target is re-considered
  - Riksbank focus on financial stability (house prices and household debt)

=> Recovery takes long time.

