



# Monetary Policy Update

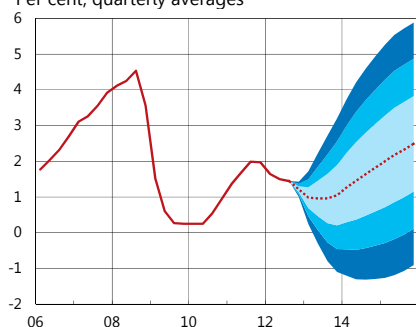
## December 2012

The Swedish economy grew at a relatively fast pace during the first three quarters of 2012. However, the Riksbank has foreseen a slowdown in the Swedish economy for some time and there are now clear signs that the rate of growth declined during the fourth quarter. For instance, sentiment has declined both in the business sector and the household sector. The labour market situation also appears to be deteriorating; one sign of this is the increase in the number of redundancies in recent months. GDP is expected to increase more slowly and unemployment to rise more in the coming year, compared with the assessment in the October Monetary Policy Report. Inflation is low and is expected to be lower in 2013 than previously expected.

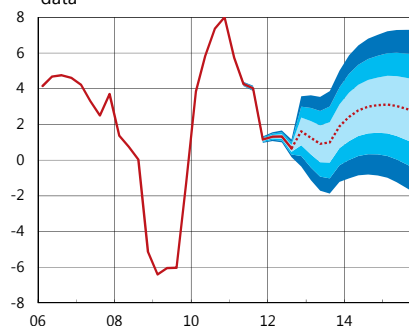
Developments in the euro area, which is very significant for the Swedish economy, are weak and still affected by the economic crisis. The measures taken in individual euro-area countries, at the EU level and by the ECB have contributed to reducing uncertainty on the financial markets, but a lot of work remains to be done to come to terms with the underlying problems. The Riksbank assumes that credible measures will be taken so that confidence in the development of the economy will gradually return. There are signs of improvement in other parts of the world, including the United States and China. The world economy as a whole is expected to grow at a relatively good pace in the coming period, by around 4 per cent a year.

The repo rate needs to be low in the coming period to support the Swedish economy so that inflation rises towards the target of 2 per cent. The lower inflationary pressures and the weaker economic activity justify a lower repo rate compared with the assessment in October. The Executive Board of the Riksbank has therefore decided to cut the repo rate to 1 per cent and to adjust the repo-rate path downwards. This will contribute to CPIF inflation being close to 2 per cent from 2014 onwards and to resource utilisation normalising during the latter part of the forecast period. Towards the end of 2015 the repo rate will be around 2.5 per cent.

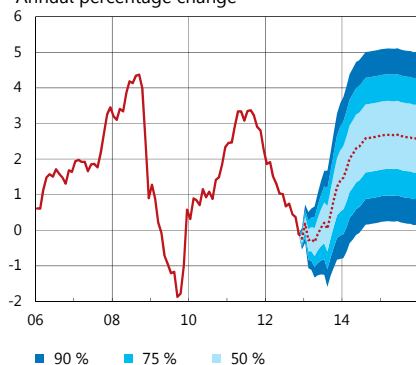
**Figure 1. Repo rate with uncertainty bands**  
Per cent, quarterly averages



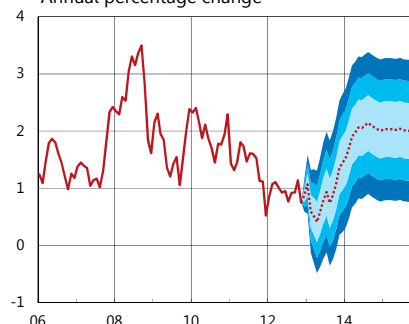
**Figure 2. GDP with uncertainty bands**  
Annual percentage change, seasonally-adjusted data



**Figure 3. CPI with uncertainty bands**  
Annual percentage change



**Figure 4. CPIF with uncertainty bands**  
Annual percentage change



■ 90 % ■ 75 % ■ 50 %

Note. The uncertainty bands in the figures are based on historical forecast errors, see the article "Calculation method for uncertainty bands" in MPR 2007:1. The uncertainty bands do not take into account the fact that there may be a lower bound for the repo rate.  
Sources: Statistics Sweden and the Riksbank

The Executive Board decided to adopt the Monetary Policy Update at its meeting on 17 December 2012. The interest rate decision is presented in a press release at 9.30 a.m. on the day following the monetary policy meeting.

## ■ The economic outlook and inflation prospects

The economic outlook and inflation prospects reported in this Monetary Policy Update are based on the assessments made in the Monetary Policy Report in October and the forecast updates made since then. The updates are based on the decision to cut the repo rate by 0.25 percentage points to 1 per cent and a lower repo-rate path than the one outlined in the October assessment.

### ■ Global economy improving despite continued euro-area crisis

Developments abroad continue to have a negative impact on the Swedish economy. In the euro area, which is of great importance to the Swedish economy, GDP is expected to have fallen this year and growth is expected to be low in the coming years. However, economic activity is expected to increase gradually, assuming that the euro area crisis is managed so that household and corporate-sector confidence returns next year. It is assumed that fiscal policy in the United States will be tighter in 2013 than in 2012, but the forecast assumes that political agreements will be reached to avoid a really severe tightening. There are now several signs that growth in the US economy will gradually increase in the years ahead. Following a slowdown in 2012, the global economy as a whole is expected to grow at a relatively good pace in the coming period, by around 4 per cent a year on average in 2013-2015. Growth remains high in many parts of the world, particularly in Asia. As GDP growth abroad is weighed together according to the significance the different countries have for the Swedish economy, developments going forward are not expected to be as strong.

### ■ Weak developments in the euro area

Developments in the euro area are still marked by the economic crisis. However, the measures taken in individual euro area countries, at the EU level and by the ECB have contributed to reducing uncertainty on the financial markets during the autumn. Uncertainty over developments in the euro area nevertheless remains substantial. It is assumed in the forecast, as before, that the euro crisis will be managed so that household and corporate-sector confidence will return next year. This requires that the reform process continues and that credible measures are gradually implemented.

It is expected that the overall development of the real economy in the euro area will be somewhat weaker than the forecast in October. It is above all the situation in southern Europe that is dampening growth in the euro area. In Spain and Italy, for example, GDP has fallen in 2012. But growth in Germany is also low and GDP is expected to fall in the euro area as a whole in 2012. During the course of 2013 GDP is expected to begin to increase again, however, as household and corporate-sector confidence returns and the acute phase of the crisis wanes. Debt consolidation in both the public and private sectors of several euro-area countries will take many years, however, which will hold back GDP growth during the entire forecast period. Moreover, many countries need to strengthen their competitiveness to create the right conditions for sustainable growth, which is expected to take time.

Inflation in the euro area is currently high given the weak state of economic activity, which is partly due to increases in administrative prices and VAT rates for the purpose of reinforcing public sector budgets. However, low cost pressure in the period ahead is

expected to contribute to reducing inflation. The assessment is that monetary policy will continue to be expansionary in the years ahead.

#### ■ **Mixed signals from Norway and Denmark**

GDP (mainland) in Norway increased by 2.8 per cent in the third quarter, compared with the second quarter and calculated as an annual rate. GDP is expected to grow by just under 3 per cent a year during the forecast period, which is unchanged compared with the assessment in October. Good income from the oil industry, low unemployment and an expansionary monetary policy will support continued strong growth in domestic demand.

In Denmark, GDP grew by 0.3 per cent in the third quarter, compared with the second quarter and calculated as an annual rate. Growth is expected to be close to zero on average this year, and is expected to rise slowly over the coming years. During 2014 and 2015, GDP is expected to grow by approximately 2 per cent per year. The development of the Danish economy is highly affected by the bursting of the housing bubble on the property market. However, domestic demand is expected to be gradually reinforced by the fiscal stimulus package decided by the government and by the fact that households are expected to reduce their debts to a lesser extent in the coming period. As global demand rises, exports are expected to provide an increasingly large contribution to growth.

#### ■ **Positive signs in the US economy despite uncertainty over fiscal policy**

The recovery in the US economy is continuing in line with the assessment in October. The housing and labour markets are improving and confidence is rising. This, together with reduced saving by households, will contribute to a gradual increase in consumption during the forecast period.

However, it is still very uncertain what type of fiscal policy will be conducted next year. The forecast assumes that some form of agreement will be reached to avoid severe tightening (the so-called fiscal cliff). Nevertheless, fiscal policy will need to be somewhat tighter in the years ahead so that the public debt does not grow at an excessive rate. Fiscal policy is expected to be tightened more in 2014 and 2015 than was assumed in the October Monetary Policy Report, which is in line with the latest assessments from the IMF and the OECD. GDP growth is therefore expected to be somewhat lower in these years.

Inflation is expected to be around 2 per cent during the forecast period. Monetary policy is expected to remain very expansionary, in line with the most recent forecast by the Federal Reserve.

#### ■ **Weak demand in Japan, but recovery in China**

In Japan, GDP fell more than expected in the third quarter of 2012, by 3.5 per cent calculated as an annual rate. Together with the downward revisions for GDP outcomes in earlier quarters and the weak indicators for the fourth quarter, this means that the forecast for GDP growth in 2012 has been revised down since the assessment in October. Japanese demand is expected to be weak even after this and the forecast for GDP growth has been revised down somewhat for 2013.

In China, recent indicators show some signs of a recovery in industrial production and retail trade growth, roughly in line with the expectations in the October Monetary Policy Report. GDP growth is expected to be around 8 per cent in the years immediately ahead. Inflation is

low and is expected to be just over 3 per cent in the years ahead, partly as the result of a government programme to stabilise the substantial fluctuations in food prices.

During the first half of 2012, GDP growth was weak in Brazil and fell rapidly in Russia and India. It continued to decline in India during the third quarter, but was still above 5 per cent on an annual rate. In recent months confidence has again increased in these countries, as indicated by the purchasing managers' index. The forecast for GDP growth in India, Russia and Brazil remains on the whole unchanged since the assessment made in October. GDP in Brazil and Russia is expected to grow by around 4 per cent a year in the coming years, and GDP in India is expected to grow by a good 6 per cent.

#### ■ **Minor changes in the exchange rate ahead**

The krona has remained relatively stable against other currencies since the monetary policy decision at the end of October, and the trade-weighted exchange rate is only marginally weaker now than it was then. The Riksbank's assessment is that at present the exchange rate is in trade-weighted terms close to its long-run level, and that it will remain around this level during the coming years.

#### ■ **Swedish growth slowing down more than expected**

The Swedish economy grew at a relatively fast pace during the first three quarters of 2012. Although GDP increased more than expected in the third quarter, important components of domestic demand, such as investment and household consumption, were weaker than expected. The Riksbank has foreseen a slowdown in the Swedish economy for some time. However, there are many indications that weak development abroad is now having a greater impact on growth than was previously expected. For instance, sentiment has declined more than expected both in the business sector and the household sector. All in all, GDP is expected to fall during the fourth quarter of 2012 and to grow at a weaker pace than normal for most of 2013. Both exports and domestic demand contribute to the slowdown in GDP growth.

Next year, confidence among Swedish households and companies is expected to rise gradually following the gradual improvement in economic activity abroad. This will lead to a gradual recovery in export growth, to households consuming more and to investment increasing at a slightly faster pace. Households are expected to reduce their saving, which together with an expansionary monetary policy will contribute to a gradual increase in growth in the Swedish economy in 2013 and 2014. GDP is expected to grow by 1.2 per cent next year, and by around 3 per cent in 2014 and 2015.

#### ■ **Weak growth in Swedish export markets**

Swedish exports fell in the third quarter, when measured as an annual percentage change. Orders to the Swedish export industry indicate that development will be weak at the end of this year and also at the start of next year. This relates to declining growth in several of Sweden's most important export markets. As demand in the euro area increases and international economic activity improves, Swedish exports will recover from 2013 and onwards.

### ■ Scope for consumption in the period ahead

The uncertain economic situation has led to household-sector confidence falling and to a slowdown in household consumption. A poorer labour market and poorer developments in incomes contribute to the assessment that household consumption will increase slightly more slowly this year and next year than was forecast in October. As confidence returns and the labour market improves from the end of 2013, household consumption will increase at a faster rate. Household incomes will rise during the forecast period and, moreover, households are expected to reduce their savings when confidence increases. The households' wealth in relation to their disposable incomes remains high.

Household debt in relation to incomes has levelled off recently, but is still high at just over 170 per cent. However, growth in lending has slowed down and the weak state of economic activity combined with slower developments in the housing market will contribute to holding back indebtedness in the coming period. Compared with the assessment in October, debt in relation to incomes is expected to be slightly higher, mainly as a result of slower growth in incomes.

### ■ Cautious companies postponing investments

Total fixed gross investment declined in the third quarter and is expected to continue to fall, when measured as an annual percentage change, over the coming quarters. Investment is being subdued, partly by weak demand and uncertainty over economic activity. Capacity utilisation in industry has also fallen, although the downturn is limited.

As international economic activity improves and uncertainty gradually wanes, companies are expected to begin investing at a faster pace. The investment level in the manufacturing industry is low in relation to production, which implies an underlying investment need. This means that industrial investment may increase rapidly when demand begins to rise again. Housing investment, which is showing a severe fall this year, is also expected to gradually pick up as the prospects for the economy as a whole improve. All in all, this means that total investment is expected to remain largely unchanged in 2013 compared with 2012, and then to increase in 2014 and 2015.

The subdued developments in exports, consumption and investment lead to a lower import requirement and weaker growth in imports in 2012 and 2013 compared with the forecast in October. However, as demand rises, imports will also increase at a faster pace.

### ■ Expected deterioration in labour market

Employment has been relatively stable in recent months and both employment and unemployment have developed roughly according to expectations since the October Report. However, labour market indicators point to a faster deterioration in the coming year, compared with October. Companies express increasing pessimism with regard to the future in various surveys that have been published, which also indicate that they are planning to reduce the number of their employees. The number of redundancies has also shown a relatively rapid increase in recent months. Although it is uncertain how many of these redundancy notices will lead to actual job losses and ultimately unemployment, the increase is a clear indication that the labour market will weaken. The number of unemployed and the number of hours worked are expected to increase again towards the end of 2013, and unemployment is expected to rise to 8.2 per cent in the third quarter of

2013 before falling again. In 2014, economic activity is expected to improve and the labour market to recover. Unemployment will fall gradually to around 6.5 per cent towards the end of 2015. Compared with the assessment in October, unemployment is now expected to be slightly higher throughout the forecast period.

#### ■ **Temporary public finance deficit**

The Riksbank's fiscal policy forecasts are based on an assessment of what can be regarded as a normal fiscal policy in relation to the economic cycle. They also assume that the government's target of a 1 per cent budget surplus over an economic cycle will be attained. At present, public sector saving is assessed to be showing a small deficit.

Household consumption and wages are increasing more slowly than forecast in October, which means that tax revenues will be lower. Public expenditure is expected to increase during the forecast period due to higher unemployment. This will contribute to the financial balance falling to -0.9 per cent in 2013 from -0.3 per cent in 2012. When the labour market improves in 2014, the financial balance will increase again. In 2015, it is expected that there will be a surplus corresponding to almost 0.5 per cent of GDP. The forecast includes tax cuts and increases in public expenditure in the magnitude of SEK 16 billion, divided between 2014 and 2015. This assessment is roughly the same as in the Monetary Policy Report published in October.

#### ■ **Resource utilisation will increase in the period ahead**

The assessment is that resource utilisation is currently lower than normal. This assessment is supported, for example, by the Riksbank's indicator of resource utilisation, which summarises the information from surveys and from the labour market. Other measures of resource utilisation, such as the GDP gap, unemployment, the employment rate and the hours worked gap, point to there being spare capacity in the economy.

Compared with the assessment in October, resource utilisation is now expected to be somewhat lower during most of the forecast period. However, GDP and the number of hours worked will gradually increase at a faster pace. This means that resource utilisation will increase and normalise during the latter part of the forecast period.

#### ■ **Moderate cost pressures**

In November, the Swedish Trade Union Confederation (LO) and the trade unions in the manufacturing industry presented their demands for new collective wage agreements for their respective areas. This can be regarded as the start of the wage bargaining rounds in 2013. The LO trade unions demand that the new collective wage agreements should lead to wage increases of at least 2.8 per cent or SEK 700 a month during a twelve-month period. The agreement demands, measured as a percentage wage increase, are lower than in the bargaining rounds in 2012, which together with the poorer labour market situation indicate that wages will increase more slowly in 2013 than in 2012.

The rate of wage increases in the economy as a whole, including wage increases over and above those stipulated in the agreements, is expected to be just under 3 per cent as an annual percentage change in 2013 (according to the short-term wage statistics). This is a downward revision since the forecast in October. The labour market situation is expected to improve with effect from the end 2013. This is expected to mean that the rate of wage

increases will rise gradually in 2014 and 2015, but at a somewhat slower rate than was expected in October. The rate of increase in labour productivity is also expected to rise during the forecast period. The rate of increase in unit labour costs is therefore expected to be stable and to amount to an average of around 1.7 per cent, as an annual percentage change during the forecast period, which is slightly lower than was forecast in October.

#### ■ **Low but gradually rising inflation**

Inflation is currently low, as a result of the low rate of increase in unit labour costs in recent years, the appreciation of the krona and the low level of resource utilisation. Inflation will remain low in the coming period and it is predicted that the rate of increase in the CPIF will be around 1 per cent over the year ahead. CPI inflation is expected to be even lower, as households' interest expenditure, which is included in the CPI but not in the CPIF, will fall when the Riksbank cuts the repo rate. The annual rate of change in the CPI will be negative in the coming months.

However, inflationary pressures will gradually rise during the forecast period. A low repo rate will contribute to maintaining the rate of price increase in the coming period. Wages will increase at a faster rate as economic activity strengthens and resource utilisation rises. At the same time, the dampening effect of the krona on import prices will decline, as it is expected to be unchanged in the coming period. CPIF inflation will approach 2 per cent at the beginning of 2014. CPI inflation will rise more than CPIF inflation from 2014 onwards, as the households' interest expenditure will increase at a faster pace when the Riksbank begins to raise the repo rate. The rate of increase in the CPI is expected to be around 2.5 per cent at the end of the forecast period.

During periods with large interest rate adjustments, measures of inflation that do not include interest rate costs, such as CPIF inflation, provide a better picture of inflationary pressures. In the long run, however, when the repo rate has stabilised, CPI inflation and CPIF inflation will coincide.

The forecast for inflation has been revised down somewhat, compared with the forecast in October, primarily in 2013. The downward revision is primarily due to the expectation that energy prices will be lower. A lower rate of wage increases also means that inflation adjusted for energy prices is expected to also be lower in the rest of the forecast period.

#### ■ **Low repo rate supports Swedish economy**

The Executive Board of the Riksbank has decided to cut the repo rate by 0.25 percentage points to 1 per cent and to adjust the repo-rate path downwards.

The Riksbank has foreseen a slowdown in the Swedish economy for some time. However, there are many indications that weak development abroad is now having a greater impact on growth than was previously expected. Sentiment has clearly declined among both households and companies. At the same time, redundancy notices and employment plans point to a further weakening of the labour market in the coming year. Inflation is low and is expected to be lower in 2013 than expected, partly as a result of lower energy prices. Lower resource utilisation and lower wage increases will also contribute to subduing inflationary pressures going forward. The households' debts as a percentage of their incomes are at a relatively high level, over 170 per cent. The debt ratio is expected to remain at approximately this level during the forecast period.

The risks associated with the households' high level of indebtedness remain, but given the weaker economic activity and lower inflation, the Executive Board of the Riksbank assesses that it is appropriate to cut the repo rate to 1 per cent. The repo rate is expected to remain around this low level for the year ahead. Monetary policy will thus be more expansionary than previously, which is illustrated by a further fall in the already negative real repo rate. This will be negative up to the end of 2014. Rising international growth and the historically-low repo rate will support economic activity and CPIF inflation is expected to be close to 2 per cent from 2014 onwards. Towards the end of 2015 the repo rate will be around 2.5 per cent.

A lower repo rate can thus counteract the negative effects of the weak international developments on the Swedish economy and contribute to resource utilisation gradually normalising and inflation rising towards 2 per cent.

#### ■ Continued uncertainty over economic developments

One important factor for the recovery in economic activity in Sweden is the continued crisis management work in the euro area. A lot of work and major political challenges remain to remedy the underlying causes of the crisis. As before, the Riksbank assumes that measures to ensure that uncertainty gradually wanes during 2013 will be taken. If the crisis instead worsens, this would risk leading to a poorer outcome in Sweden. There is also uncertainty over what fiscal policy will be conducted in the United States. The forecast is based on the assumption that political agreements will be reached so that no dramatic tightening will take place during the forecast period.

However, despite these risks there is also a possibility that growth and inflation in Sweden will be higher than expected. There are some positive signs abroad, for instance in the United States, which could lead to a faster recovery in global economic activity. It is difficult to assess how quickly confidence will return and demand will rise. When households' and companies' expectations of future developments improve and the uncertainty abates, both consumption and investment could grow faster than is assumed in this Monetary Policy Update.

If the economic situation worsens, or if it improves at a faster pace than the Riksbank is forecasting, monetary policy will need to be adjusted to these new circumstances.



## ■ New information since the October Monetary Policy Report

### Financial markets

- After unease abated during the autumn, the situation on the financial markets has been largely unchanged since the end of October. The ECB's programme for bond purchases (OMT) and other crisis measures have reduced uncertainty about developments in the crisis countries in Europe and have helped to stabilise the financial markets. The European Council has agreed on a joint supervisory mechanism under which the ECB will have a direct supervisory responsibility for banks that have assets exceeding EUR 30 billion. This agreement represents an important step in the move towards a common banking union. Volatility on the stock markets has declined and although the market participants have revised their assessments of growth prospects downwards, share prices have risen since the end of October.
- Bond yields for countries with sound public finances, such as Sweden and Germany, have fallen since the end of October. The ECB's OMT programme has also led to a fall in longer-term bond yields in Spain and Italy, although borrowing costs remain high. The European Commission has announced that Spain meets the conditions for receiving support from the European financial institution (ESM) but the Spanish government has not applied for such support as yet. The Eurogroup has decided that Greece will receive further instalments of the crisis support payments that have previously been withheld. The parties have also agreed on a plan to reduce Greece's debt burden, for example by reducing the interest rate on the loans and postponing interest-rate payments. This will give Greece time to implement structural reforms over the next few years. It is therefore assumed that there is now less likelihood of a suspension of payments in the euro area in the immediate future.
- The weakening of growth prospects in Europe, not least in Germany, has led monetary-policy expectations, as expressed in forward rates, to fall in the euro area. In the United States, monetary-policy expectations in the longer term have fallen. According to financial pricing, the assessment of the market participants is that the US central bank, the Federal Reserve, will keep the policy rate at its present level until the end of 2015. Following the monetary policy meeting in December, the Federal Reserve announced that the policy rate will remain at its currently low level as long as unemployment is higher than 6.5 per cent and inflation is not expected to exceed 2.5 per cent. The Federal Reserve also intends to continue to stimulate the economy by continuing to purchase mortgage-related securities and government bonds. In the United Kingdom, forward rates indicate that monetary-policy expectations have declined and that growth prospects have weakened. At its latest monetary-policy meeting, the Bank of England signalled that further policy-rate reductions were not likely. Norges Bank left its policy rate unchanged at 1.5 per cent at the monetary-policy meeting held in late October. The bank also revised its policy-rate path downwards, which means that future policy-rate increases have been postponed.
- Swedish mortgage rates have fallen further since the end of October as a result of a fall in the Swedish banks' funding costs. The expectations of the Swedish households regarding the level of mortgage rates in the years ahead also fell between October and November according to the Consumer Tendency Survey of the National Institute of

Economic Research. The interest rates offered to companies have also fallen since October.

- Pricing on the Swedish money market indicates that the Riksbank is expected to cut the repo rate to 0.75 per cent during 2013. The latest Prospera survey shows that the market participants expect the repo rate to be cut to 1.0 per cent during the winter and possibly slightly further next year.
- The krona exchange rate remains practically unchanged in trade-weighted terms compared with the end of October, despite weak economic indicators in Sweden.

## International developments

- GDP in the euro area fell by 0.2 per cent at an annual rate in the third quarter of this year compared with the second quarter. GDP fell, for example, in Spain, Italy and the Netherlands. On the other hand, GDP grew in Germany and France. Industrial production fell significantly in most of the euro countries in both September and October. Together with the fact that confidence indicators were still weak in October and November, this indicates that GDP will continue to fall during the fourth quarter of this year. However, the purchasing managers' index for the manufacturing industry and the European Commission's Economic Sentiment Indicator have begun to increase, although they are still at low levels. The labour market has weakened further and unemployment rose to a record-high level of 11.7 per cent in October. The inflation rate, measured in terms of the HICP, was 2.2 per cent in November, while the underlying inflation rate, excluding energy, food, alcohol and tobacco, was 1.4 per cent.
- In the United States, GDP increased by 2.7 per cent at an annual rate in the third quarter compared with the second quarter. According to the University of Michigan's survey, consumer confidence increased in both October and November but fell significantly in December. However, household consumption has increased during the autumn and developments in the retail sector indicate that consumption continued to grow in November. At the same time, the housing market is continuing to improve. Housing sales and the confidence of the construction companies are increasing. The labour market is recovering relatively slowly and unemployment was 7.7 per cent in November. CPI inflation was 1.8 per cent in November, while CPI inflation adjusted for energy and food prices was 1.9 per cent.
- GDP in the United Kingdom increased by 4 per cent at an annual rate in the third quarter, compared with the second quarter. The upturn was partly a result of temporary effects in connection with the summer's Olympic Games. Underlying growth is weak, however, and industrial production has continued to fall. Both households and companies have become increasingly pessimistic in recent months and bank lending to the private sector has remained subdued. CPI inflation has been subdued over the last 12 months but rose to 2.7 per cent in October.
- Following a long period of weak growth, GDP in Denmark increased in the third quarter of this year compared with the second quarter. However, the increase was only 0.3 per cent calculated as an annual rate. On the other hand, GDP (mainland) in Norway increased by 2.8 per cent at an annual rate in the third quarter, compared with the second quarter. However, retail sales and industrial production have been weak in

Norway in recent months. CPI inflation was 1.1 per cent in November and inflationary pressures are low, partly due to the strengthening of the Norwegian krona.

- In Japan, GDP fell by 3.5 per cent at an annual rate in the third quarter compared with the second quarter. Industrial production has fallen during the autumn, but increased by almost 2 per cent in October. Exports have also been weak during the autumn and fell by 6 per cent in October compared with the same month last year. The fall in industrial production and exports relates to the weak development of the Japanese car industry. This is partly because subsidies for fuel-efficient vehicles in Japan have been abolished, but is also due to weaker international demand. An important explanation of the low level of international demand is the island dispute with China, which has reduced Chinese demand for Japanese products. The purchasing managers' index for the manufacturing industry continued to fall in November.
- GDP in China increased by 9.1 per cent at an annual rate in the third quarter, compared with the second quarter. Industrial production increased by over 10 per cent in November compared with the same month last year. Exports continue to increase at a rapid rate, largely due to the substantial increase in demand from the emerging markets in Asia. In October, the annual rate of increase in the CPI was 2.0 per cent. GDP in India grew by 5.3 per cent in the third quarter compared to the same quarter last year. There was a rapid increase in industrial production in October compared to the same month last year. In Brazil, GDP increased by 0.9 per cent in the third quarter compared to the same quarter last year, and industrial production has increased since the summer.

## GDP in Sweden

- GDP in Sweden increased by 2.0 per cent at an annual rate in the third quarter compared with the preceding quarter, and by 0.7 per cent compared with the same quarter last year (calendar adjusted). GDP growth was thus slightly higher than forecast in the October Monetary Policy Report. However, household consumption and gross fixed capital formation were weaker than expected. GDP growth is expected to be lower during the latter part of this year and the early part of next year. This is because international demand, but also consumption and investment, will be weak, at the same time as restocking will decline.
- The indications are that growth will be weaker in the period immediately ahead. Economic sentiment is weakening on a broad front and confidence indicators have fallen in all corporate sectors as well as among households. Both the purchasing managers' index and the Economic Tendency Survey for the manufacturing industry conducted by the National Institute of Economic Research are at very low levels. The indicators for the service sector have also fallen significantly and indicate that economic activity has weakened in the sector.
- Household consumption increased by 0.9 per cent at an annual rate in the third quarter compared with the previous quarter, which is weaker than the forecast in the October monetary Policy Report. Compared to the corresponding quarter last year, consumption has increased by 1.5 per cent (calendar adjusted). The consumption of services increased, while car purchases decreased. The statistics for retail sales in October indicate that consumption growth will continue to be subdued. Household confidence has weakened in recent months and is now at a lower level than normal. It is above all

the households' view of the Swedish economy and the development of the labour market that has weakened, while their view of their own financial situation is somewhat brighter.

- The rate of increase in lending to households has remained largely unchanged recently. In October, the rate of increase in lending to households was 4.5 per cent measured as an annual percentage change. Price increases on the housing market have been subdued and prices are now at roughly the same level as a year ago. According to Valueguard's index (HOX), which examines recent trends, prices for single-family dwellings fell in October and were unchanged in November. Prices for tenant-owned apartments in Sweden as a whole fell slightly in November.
- Exports increased by 0.5 per cent at an annual rate in the third quarter compared with the previous quarter. This was somewhat less than the forecast in the October Monetary Policy Report. Exports of both goods and services developed weakly. Ongoing weak growth in large parts of Europe is expected to hold back Swedish exports in the period ahead. The development of goods exports up to the end of October and indicators such as export orders and production expectations also point in this direction.
- Investment fell by almost 4.5 per cent at an annual rate in the third quarter compared with the previous quarter. This was weaker than the forecast in October. Statistics Sweden's investment survey for October indicates that a turnaround is not imminent. Statistics on the number of housing starts also indicates that housing investment will remain weak for some time. On the other hand, inventory investment was higher than expected in the third quarter. According to the Business Tendency Survey of the National Institute of Economic Research, the companies have been relatively satisfied with the inventory situation. Going forward, the companies are not expected to restock to the same extent as previously, which means that investment will make a negative contribution to GDP growth in the quarters ahead.
- Imports fell by just over 2.5 per cent at an annual rate during the third quarter of this year compared with the second quarter. This was a larger decrease than the forecast in October. The statistics for foreign trade up to the end of October, together with ongoing weak demand and a decline in restocking, indicate that imports will continue to be weak in the period ahead.
- Public consumption expenditure increased more in the third quarter of this year than the forecast in October, which was partly due to high consumption in the defence forces and the Swedish Transport Administration. Public sector net lending fell by SEK 5 billion in the first three quarters of this year in comparison with the same period last year. The Riksbank's assessment is that net lending will be weak in the fourth quarter and that public finances will be almost in balance for the whole year 2012.

## Labour market

- To date, the Swedish labour market has developed in line with the forecast in the October Monetary Policy Report. However, indicators such as redundancy notices suggest that the labour market will be weaker than expected going forward. The number of redundancy notices has increased during the autumn and averaged approximately 10 000 in October and November. So far this year, 66 000 individuals have been given notice of redundancy. This is 24 000 more than in the corresponding period last year, but 12 000 fewer than in 2008. At the same time as the number of redundancy notices has increased, the number of new job vacancies is still at a relatively high level. This is in sharp contrast to the situation in 2008, when the number of new job vacancies had been falling for some time as the number of redundancy notices increased. According to the Business Tendency Survey of the National Institute of Economic Research, employment plans in the private sector were further reduced in November.
- According to the National Accounts for the third quarter of this year, the number of hours worked increased by over 0.6 per cent in annualised terms. This was in line with the forecast in the October Monetary Policy Report. The seasonally-adjusted unemployment rate was 8.1 per cent in November and the employment rate decreased somewhat. Taking October and November as a whole, unemployment and employment have developed as expected.
- According to the National Mediation Office's short-term wage statistics, wages in the economy as a whole rose by an average of 2.5 per cent, calculated as an annual percentage change, in the period January to September. This figure will be revised up as retroactive wages are paid out. The assessment is that wages, including retroactive wage payments, will increase by 3.2 per cent per this year.
- According to the Prospera survey for December, wages expectations fell one and two years ahead. Wages were expected to increase by 2.3 per cent one year ahead, which is a downward revision compared to September when wages were expected to increase by 2.6 per cent.
- The sums for wages and labour costs for the economy as a whole increased somewhat more slowly in the third quarter than was predicted in the October Monetary Policy Report. However, the number of hours worked was in line with the forecast. This means that hourly wages and labour costs per hour increased somewhat more slowly during the third quarter than was assessed previously.
- There was a slight increase in productivity in the third quarter of this year. However, the increase was higher than the forecast in October and the forecast for productivity growth this year has been revised upwards somewhat. Unit labour costs are therefore now expected to increase more slowly this year than predicted in October.

## Inflation

- According to the Business Tendency Survey of the National Institute of Economic Research, the households' inflation expectations one year ahead fell from 1.9 per cent in October to 1.5 per cent in November. The Prospera survey for December also showed a

fall in inflation expectations, both one and two years ahead. According to the Prospera survey, inflation is expected to be 1.1 per cent in one year's time and 1.5 per cent in two years' time. Inflation expectations five years ahead were 2.0 per cent, which was a marginal change compared to the survey in September.

- In November, the annual rate of increase in the CPIF, that is the CPI with a fixed mortgage rate, amounted to 0.8 per cent. The annual rate of increase in the CPIF adjusted for changes in energy prices was 0.9 per cent, as energy prices increased approximately in line with the CPIF. The annual rate of increase in the CPI was -0.1 per cent in October. The fact that the CPI is now falling is mainly due to a fall in the households' interest expenditure. Both the repo rate and mortgage rates are lower than they were a year ago. The inflation outcome was in line with the forecast in the October Monetary Policy Report.
- CPIF inflation is expected to be lower in the months immediately ahead and to be approximately 0.5 per cent at the start of next year. This is mainly due to the assessment that energy prices will fall in the period ahead. Even adjusted for energy prices, CPIF inflation will be somewhat lower going forward. One of the reasons for this is that prices of goods, excluding food prices, are expected to continue to fall measured as an annual percentage change. Compared to the forecast in October, both CPIF inflation and CPIF inflation excluding energy prices have been revised downwards somewhat for the months ahead. The lower repo-rate path is a contributing factor to the additional slight downward revision of the figure for CPIF inflation.

## ■ Tables

The forecast in the previous Monetary Policy Report is shown in brackets.

**Table 1. Repo rate forecast**

Per cent, quarterly averages

	Q3 2012	Q4 2012	Q4 2013	Q4 2014	Q4 2015
Repo rate	1.5	1.2 (1.2)	1.1 (1.3)	1.8 (1.9)	2.5 (2.6)

Source: The Riksbank

**Table 2. Inflation**

Annual percentage change, annual averages

	2011	2012	2013	2014	2015
CPI	3.0 (3.0)	0.9 (0.9)	0.3 (0.7)	2.3 (2.4)	2.6 (2.7)
CPIF	1.4 (1.4)	0.9 (1.0)	0.9 (1.1)	2.0 (2.0)	2.0 (2.1)
CPIF excl. Energy	1.0 (1.0)	1.0 (1.0)	1.2 (1.4)	1.8 (1.9)	2.1 (2.1)
HICP	1.4 (1.4)	0.9 (1.0)	0.9 (1.1)	2.0 (2.1)	2.1 (2.2)

Note. The CPIF is the CPI with a fixed mortgage rate. HICP is an EU harmonised index of consumer prices.

Sources: Statistics Sweden and the Riksbank

**Table 3. Summary of financial forecasts**

Per cent, unless otherwise stated, annual average

	2011	2012	2013	2014	2015
Repo rate	1.8 (1.8)	1.5 (1.5)	1.0 (1.2)	1.5 (1.7)	2.2 (2.3)
10-year rate	2.7 (2.7)	1.6 (1.7)	1.8 (2.0)	2.9 (3.1)	3.8 (3.9)
Exchange rate, KIX-index, 18 Nov. 1992 = 100	107.6 (107.6)	106.1 (106.0)	103.8 (103.4)	103.4 (103.3)	103.3 (103.3)
Exchange rate, TCW-index, 18 Nov. 1992 = 100	122.3 (122.3)	120.9 (120.8)	118.2 (116.8)	117.5 (117.2)	117.7 (117.8)
General government net lending*	0.2 (0.2)	-0.3 (-0.1)	-0.9 (-0.3)	-0.3 (0.5)	0.4 (1.0)

\* Per cent of GDP

Sources: Statistics Sweden and the Riksbank

**Table 4. International conditions**

Annual percentage change, unless otherwise stated

GDP	2011	2012	2013	2014	2015
Euro area (0.14)	1.5 (1.5)	-0.5 (-0.4)	-0.1 (0.2)	1.6 (1.7)	2.1 (2.2)
USA (0.19)	1.8 (1.8)	2.3 (2.1)	2.3 (2.2)	3.0 (3.4)	3.3 (3.6)
Japan (0.06)	-0.7 (-0.7)	1.7 (2.3)	0.6 (1.3)	1.3 (1.1)	1.1 (1.0)
BRIC countries (0.26)	7.4 (7.4)	6.0 (6.0)	6.7 (6.7)	6.9 (6.9)	6.8 (6.9)
OECD (0.54)	1.9 (1.9)	1.4 (1.4)	1.6 (1.7)	2.5 (2.6)	2.7 (2.8)
KIX-weighted (0.79)	2.2 (2.2)	1.0 (1.1)	1.4 (1.6)	2.6 (2.6)	2.9 (3.0)
TCW-weighted (0.54)	1.3 (1.3)	0.3 (0.4)	0.7 (0.9)	1.9 (2.0)	2.3 (2.4)
World (1.00)	3.9 (3.9)	3.2 (3.3)	3.5 (3.6)	4.0 (4.1)	4.2 (4.3)

Note. The figures in parentheses in the left column indicate the global purchasing-power adjusted GDP-weights, according to the IMF, 2011. The BRIC countries are Brazil, Russia, India and China.

CPI	2011	2012	2013	2014	2015
Euro area (HICP)	2.7 (2.7)	2.5 (2.5)	1.7 (1.9)	1.5 (1.6)	1.7 (1.8)
USA	3.2 (3.2)	2.1 (2.2)	2.0 (2.0)	1.9 (1.9)	2.2 (2.4)
Japan	-0.3 (-0.3)	0.0 (0.0)	-0.3 (0.1)	0.9 (0.9)	0.5 (0.6)
KIX-weighted	3.2 (3.2)	2.6 (2.6)	2.2 (2.3)	2.1 (2.2)	2.2 (2.3)
TCW-weighted	2.6 (2.6)	2.1 (2.1)	1.7 (1.8)	1.6 (1.7)	1.8 (1.9)

	2011	2012	2013	2014	2015
Policy rates in the rest of the world, KIX-weighted, per cent	0.8 (0.8)	0.4 (0.4)	0.3 (0.3)	0.4 (0.4)	0.8 (0.9)
Policy rates in the rest of the world, TCW-weighted, per cent	0.8 (0.8)	0.3 (0.3)	0.3 (0.3)	0.4 (0.4)	0.8 (0.9)
Crude oil price, USD/barrel Brent	111 (111)	112 (112)	107 (108)	102 (103)	98 (98)
Swedish export market	5.4 (5.4)	1.4 (1.5)	3.4 (3.9)	6.9 (7.0)	7.9 (8.2)

Note. The Swedish export market index is calculated as a weighted average of the imports of the 15 countries which are the largest recipients of Swedish exports. They receive approximately 70 per cent of Swedish exports. The weight assigned to a country is its share of Swedish exports of goods. Policy rates in the rest of the world refer to a KIX and TCW weighted average of USA, the euro area, Norway and the United Kingdom.

Sources: Eurostat, IMF, Intercontinental Exchange, OECD and the Riksbank

**Table 5. GDP by expenditure**

Annual percentage change, unless otherwise stated

	2011	2012	2013	2014	2015
Private consumption	2.1 (2.1)	1.4 (1.8)	1.5 (2.2)	2.7 (2.7)	2.7 (2.3)
Public consumption	1.1 (1.7)	0.4 (0.6)	0.9 (0.9)	0.7 (0.7)	1.1 (1.1)
Gross fixed capital formation	6.4 (6.7)	3.2 (3.7)	0.3 (2.7)	4.6 (5.2)	5.8 (5.1)
Inventory investment*	0.5 (0.4)	-0.9 (-0.9)	0.0 (0.1)	0.1 (0.0)	0.0 (0.0)
Exports	7.1 (7.1)	0.2 (-0.1)	2.2 (3.3)	5.6 (6.4)	7.7 (8.5)
Imports	6.3 (6.3)	-0.7 (-0.3)	1.9 (3.9)	5.9 (6.7)	7.8 (8.5)
GDP	3.7 (3.9)	0.9 (0.9)	1.2 (1.8)	2.7 (2.7)	3.2 (2.9)
GDP, calendar-adjusted	3.8 (3.9)	1.2 (1.2)	1.3 (1.8)	2.8 (2.8)	2.9 (2.7)
Final figure for domestic demand*	2.5 (2.7)	1.4 (1.7)	1.0 (1.8)	2.3 (2.5)	2.7 (2.4)
Net exports*	0.8 (0.8)	0.4 (0.1)	0.3 (-0.1)	0.3 (0.3)	0.5 (0.5)
Current account (NA), per cent of GDP	7.3 (6.9)	7.2 (6.7)	7.3 (6.5)	7.3 (6.5)	7.3 (6.7)

\*Contribution to GDP growth, percentage points

Note. The figures show actual growth rates that have not been calendar-adjusted, unless otherwise stated. NA is the National Accounts.

Sources: Statistics Sweden and the Riksbank

**Table 6. Production and employment**

Annual percentage change, unless otherwise stated

	2011	2012	2013	2014	2015
Population, aged 16-64	0.3 (0.3)	0.1 (0.1)	0.2 (0.2)	0.2 (0.2)	0.2 (0.2)
Potential hours worked	0.7 (0.7)	0.5 (0.5)	0.4 (0.4)	0.4 (0.4)	0.4 (0.4)
GDP, calendar-adjusted	3.8 (3.9)	1.2 (1.2)	1.3 (1.8)	2.8 (2.8)	2.9 (2.7)
Number of hours worked, calendar-adjusted	2.3 (2.2)	0.4 (0.4)	0.0 (0.4)	0.9 (0.9)	0.8 (0.7)
Employed, aged 15-74	2.1 (2.1)	0.5 (0.5)	0.1 (0.3)	0.8 (0.9)	1.2 (1.1)
Labour force, aged 15-74	1.2 (1.2)	0.7 (0.7)	0.6 (0.6)	0.3 (0.3)	0.2 (0.2)
Unemployment, aged 15-74*	7.5 (7.5)	7.7 (7.7)	8.1 (7.9)	7.6 (7.4)	6.8 (6.5)

\* Per cent of labour force

Note. Potential hours refer to the long-term sustainable level for the number of hours worked according to the Riksbank's assessment.

Sources: Statistics Sweden and the Riksbank

**Table 7. Wages and unit labour cost for the economy as a whole**

Annual percentage change, calendar-adjusted data, unless otherwise stated

	2011	2012	2013	2014	2015
Hourly wage, NMO	2.4 (2.4)	3.2 (3.2)	2.8 (3.1)	3.2 (3.4)	3.6 (3.7)
Hourly wage, NA	3.3 (3.4)	3.3 (3.3)	3.0 (3.4)	3.5 (3.7)	3.8 (4.0)
Employers' contribution*	0.0 (-0.2)	-0.1 (0.1)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)
Hourly labour cost, NA	3.3 (3.2)	3.1 (3.4)	3.0 (3.4)	3.5 (3.7)	3.8 (4.0)
Productivity	1.5 (1.7)	0.8 (0.8)	1.2 (1.5)	1.9 (1.9)	2.1 (1.9)
Unit labour cost	1.8 (1.5)	2.3 (2.6)	1.8 (1.9)	1.5 (1.8)	1.7 (2.0)

\* Contribution to the increase in labour costs, percentage points.

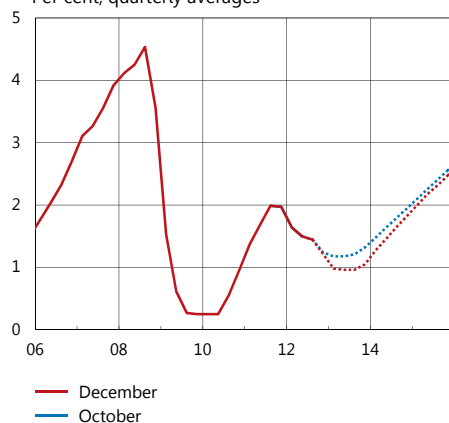
Note. NMO is the National Mediation Office's short-term wage statistics and NA is the National Accounts. Labour cost per hour is defined as the sum of actual wages, collective charges and wage taxes divided by the seasonally adjusted total number of hours worked. Unit labour cost is defined as labour cost divided by seasonally adjusted value added at constant prices.

Sources: National Mediation Office, Statistics Sweden and the Riksbank



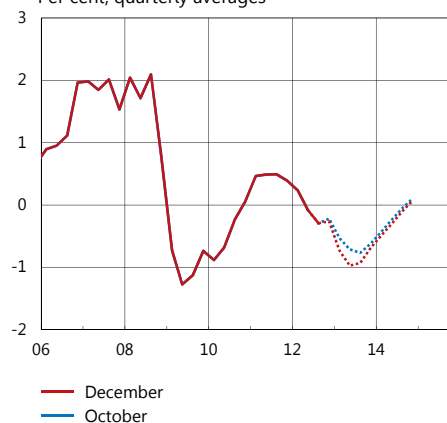
## ■ Figures

**Figure 5. Repo rate**  
Per cent, quarterly averages



Source: The Riksbank

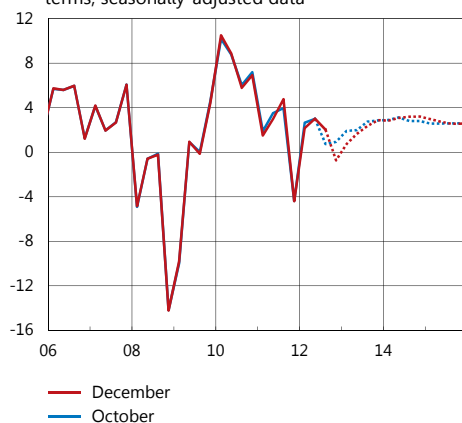
**Figure 6. Real repo rate**  
Per cent, quarterly averages



Note. The real repo rate is calculated as an average of the Riksbank's repo rate forecasts for the coming year minus the inflation forecast (CPIF) for the corresponding period.

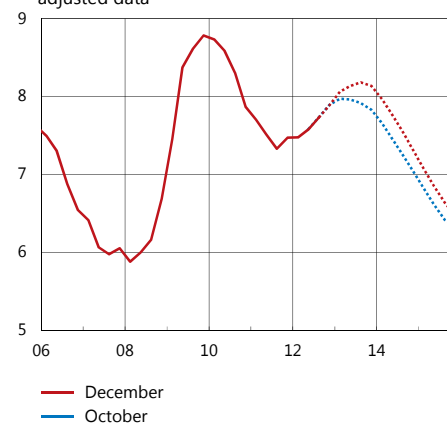
Source: The Riksbank

**Figure 7. GDP**  
Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data



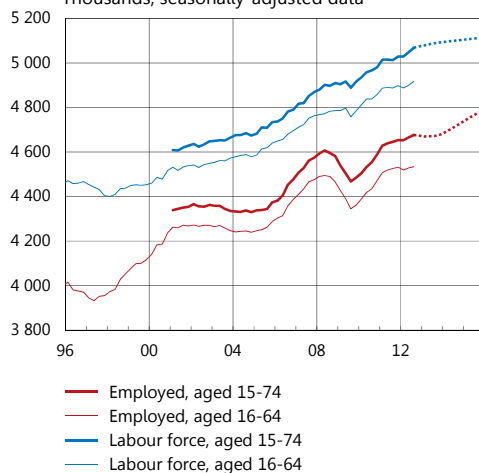
Sources: Statistics Sweden and the Riksbank

**Figure 8. Unemployment**  
Per cent of the labour force, aged 15-74, seasonally-adjusted data



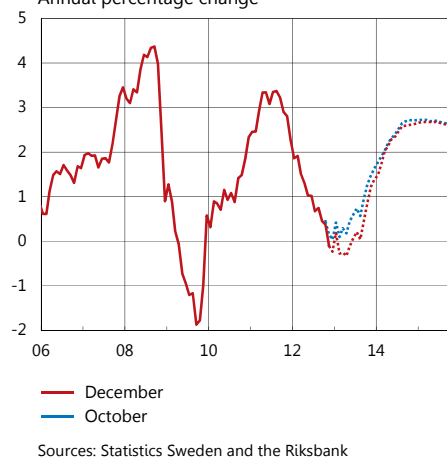
Sources: Statistics Sweden and the Riksbank

**Figure 9. Labour force and number of employed**  
Thousands, seasonally-adjusted data



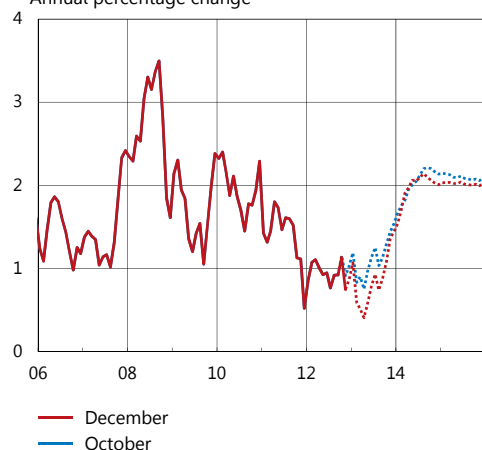
Sources: Statistics Sweden and the Riksbank

**Figure 10. CPI**  
Annual percentage change



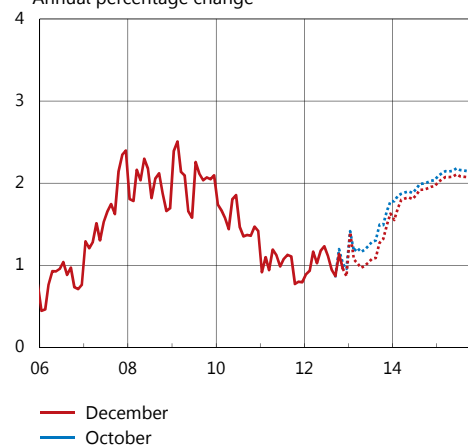
Sources: Statistics Sweden and the Riksbank

**Figure 11. CPIF**  
Annual percentage change



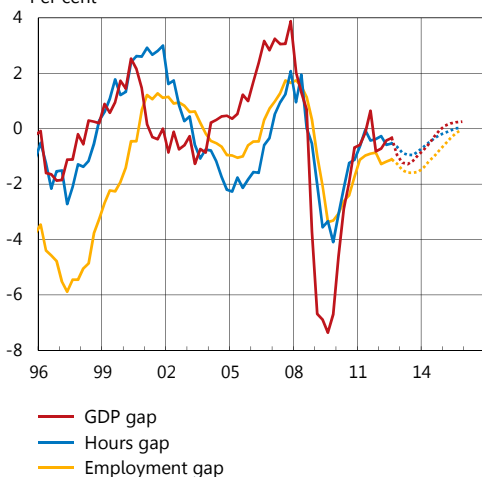
Note. The CPIF is the CPI with a fixed mortgage rate.  
Sources: Statistics Sweden and the Riksbank

**Figure 12. CPIF excluding energy**  
Annual percentage change



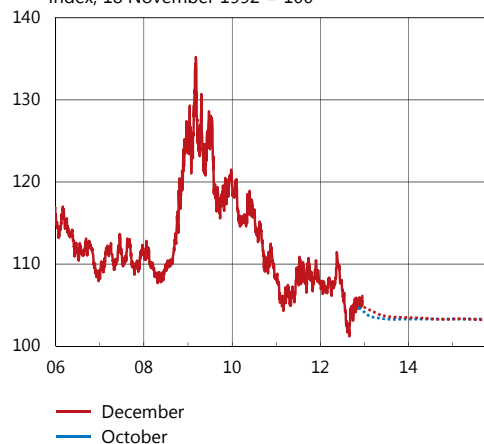
Note. The CPIF is the CPI with a fixed mortgage rate.  
Sources: Statistics Sweden and the Riksbank

**Figure 13. GDP gap, hours gap and employment gap**  
Per cent



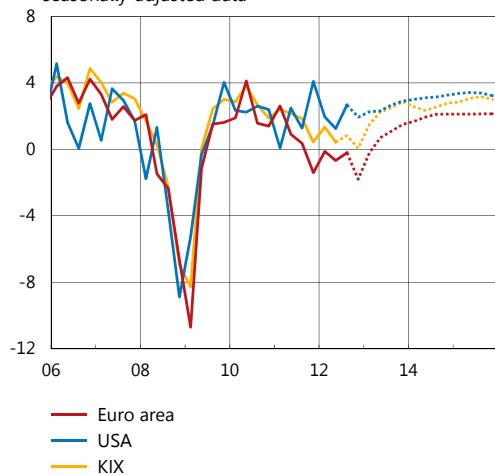
Note. GDP gap refers to the deviation from trend in GDP calculated using a production function. The hours gap and the employment gap refer to the deviation in the number of hours worked and the number of those employed from the Riksbank's assessed trend.  
Sources: Statistics Sweden and the Riksbank

**Figure 14. KIX-weighted nominal exchange rate**  
Index, 18 November 1992 = 100



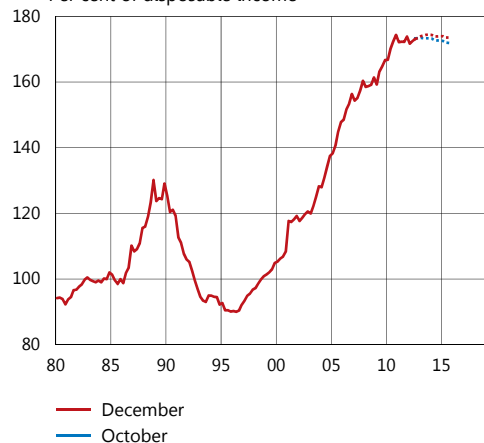
Note. Outcomes are daily rates and forecasts refer to quarterly averages. KIX refers to an aggregate of currencies that are important for Sweden's international transactions. KIX weights are updated regularly.  
Source: The Riksbank

**Figure 15. GDP in different regions and countries**  
Quarterly changes in per cent, annual rate, seasonally-adjusted data



Note. KIX is an aggregate of Sweden's most important trading partners.  
Sources: Bureau of Economic Analysis, Eurostat and the Riksbank

**Figure 16. Household debt**  
Per cent of disposable income



Sources: Statistics Sweden and the Riksbank