Monetary Policy Update December 2008

The Executive Board of the Riksbank has decided to cut the repo rate to 2 per cent. The repo rate is expected to remain at this level over the coming year. There has been a rapid and widespread deterioration in economic activity and it will continue to weaken. Several economic indicators point to a rapid deterioration and are now at historically low levels. At the same time, the crisis in the financial markets is persisting and despite the measures taken around the world, there has been a general credit crunch. The weak developments in the real economy have led to the oil price and other commodity prices continuing to fall and to lower cost pressures. The Riksbank's assessment is that in the current situation a substantial interest rate cut is necessary. A lower repo rate will lead to inflation being close to the target of 2 per cent a couple of years ahead. Resource utilisation is now falling rapidly and will be lower than normal next year. It is then expected to rise again at the end of the forecast period to dampen the fall in production and employment.

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

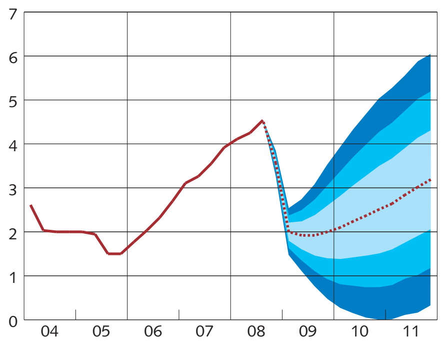


Figure 2. CPI with uncertainty bands
Annual percentage change

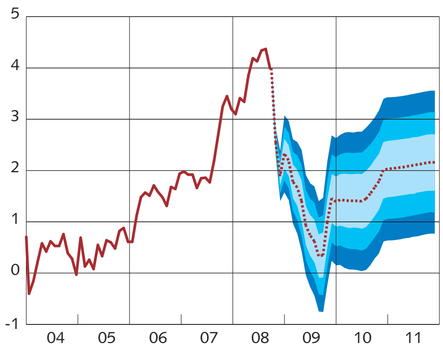
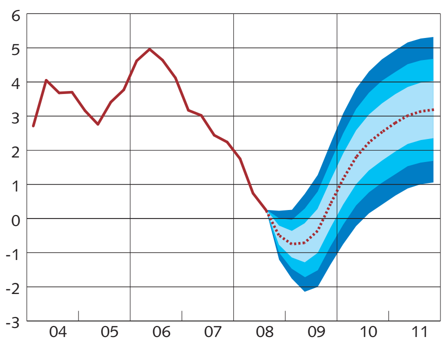


Figure 3. GDP with uncertainty bands
Annual percentage change, seasonally-adjusted data



Outcome
Forecast
90%
75%
50%

Note. The uncertainty bands in figure 1-3 are based on historical forecast errors. See the article entitled "Calculation method for uncertainty bands" in MPR 2007:1.

The uncertainty interval is based on the ability of market rates to forecast the future repo rate. However, an adjustment must be made for risk premiums. The risk premium is estimated with the aid of a financial model for the yield curve.

Sources: Statistics Sweden and the Riksbank

New information since the July Monetary Policy Report

- The period since the Monetary Policy Report was published has continued to be marked by the crisis in the financial markets and by increased anxiety regarding economic activity around the world. This has led to interest rate cuts in several countries and to expectations of future interest rates falling. Stock markets are currently at around the same levels as at the end of October, but there have been substantial fluctuations during the period.

- Although interest rates have fallen, those that households and companies have to pay are still high. In Sweden, the short-term mortgage rates have fallen, but expectations of the policy rate have fallen even more. The interbank rate, which is important for corporate rates, remains at a relatively high level. And the difference between the interbank rate and the expected repo rate, what is known as the basis spread, is greater than normal. The difference between interbank rates and treasury bill rates, what is known as the TED spread, is also higher than normal. The basis spread is now around 15 basis points higher and the TED spread around 12 basis points lower, respectively, than at the time the October Monetary Policy Report was published.

- Credit spreads in the United States and the euro area also remain high. This is a sign that the credit markets are still not functioning normally. However, central bank measures and government rescue packages have had some effect. In the United States, both the basis and the TED spreads have fallen considerably since the October Report was published. In the euro area, only the TED spread is lower; the basis spread remains unchanged. Both of these spreads remain largely unchanged in the United Kingdom.

- The anxiety over economic activity and the financial crisis has also led to considerable fluctuations in the foreign exchange markets. The krona has weakened since the Monetary Policy Report was published and is at the weakest level against the euro since the floating exchange rate regime was introduced. The krona has also weakened in trade-weighted (TCW) terms and the level in the fourth quarter this year will be around 5 per cent weaker than was forecast in the October Report.

- Surveys in Sweden, the United States and euro area indicate a decline in funding possibilities for companies and more stringent credit terms. However, the official Swedish statistics on the banks' total lending to households and companies, with outcomes up to the end of October, do not show any clear signs of a slowdown. The rate of increase in household borrowing has fallen, but households' total loan volumes increased in October, too. However, it is expected that a clearer slowdown in loans to purchase housing will be visible in the statistics with some time lag. Consumption loans, which become visible in the statistics more quickly, have declined during October. The rate of increase in corporate bank borrowing, on the other hand, has not shown any clear tendency to fall. This is probably partly because the banks have taken over some of the corporate borrowing that previously took place in the securities markets. It has been possible to note a reduction in direct borrowing through commercial paper in Sweden.

- Energy prices have continued to fall in the world market since October. The oil price amounted to around 53 dollars on average in November, which was around 30 dollars, or a good 35 per cent lower than forecasted in October. Forward prices have also fallen and were around 20 per cent lower at the end of the period than the figures the forecasts were based on in mid-October. Electricity forward prices have also fallen. They are now around 30 per cent lower than they were in the middle of October. Other commodity prices in the world market have also fallen since October; food prices by around 8 per cent and metal prices by around 28 per cent.

- In the United States, GDP fell by 0.5 per cent on an annual rate during the third quarter. Although the outcome for growth was in line with the forecast in the Monetary Policy Report, indicators are now pointing to the future downturn being greater than was expected in October. Confidence indicators for households and companies show a surprisingly rapid decline and are now at historically low levels. The labour market is continuing to weaken. Employment is falling and unemployment is rising. The housing market is still weak. Both house prices and residential construction have fallen and it still takes a long time to sell houses. Both indicators and monthly data, particularly those regarding household consumption expenditure received since the October Report indicate in total weaker development in the US economy in the future than was forecast in October. Growth is now expected to be lower both this year and next year.

- In the euro area, the outcomes were weak, as expected, in the third quarter. The preliminary GDP outcome for the third quarter shows that GDP fell by 0.8 per cent when calculated as an annual rate, which was in line with the forecast in the October Report. This is the second quarter in a row with negative growth. Three of the largest countries – Germany, Italy and Spain – showed negative growth, while growth in France was close to zero. There are also clear signs now that the labour market has begun to weaken, and unemployment rose in October. The indicators received since the previous monetary policy meeting are at historically low levels and point to much weaker developments in the fourth quarter of this year than the assessment made in the October Report. The growth forecasts have thus been revised down for this year, as well as for 2009 and 2010.

- The most recent outcomes and indicators point to weaker GDP growth in the world as a whole in 2008, compared with the assessment in the October Monetary Policy Report. Although the outcomes for the third quarter in the United States and the euro area were in line with the forecasts, growth in other countries, such as the United Kingdom, Japan and Norway, was lower than expected. At the same time, so-called emerging economies such as China have showed an unexpected slowdown. The Riksbank, like the OECD and the IMF, has therefore made significant downward revisions to its forecasts for growth during the forecast period.

- Inflation has fallen in both the United States and the euro area, largely due to the fall in the oil price. In the United States, CPI inflation was 3.7 per cent in October, which is a fall from 4.9 per cent in September and 0.2 percentage points lower than was forecast in the October Report. When adjusted for energy and food, inflation was 2.2 per cent. In the euro area, HICP inflation was 3.2 per cent in October, which was largely as expected. Excluding energy, food, alcohol and tobacco, inflation was 1.9 per cent. The flash estimate for November shows an annual rate of increase in the HICP of 2.1 per cent, which is lower than the Riksbank's forecast in October.

- According to the National Accounts figures for the third quarter, GDP in Sweden fell by 0.4 per cent compared with the previous quarter calculated as an annual rate. Similar to the euro area, this was the second quarter in a row of negative growth. Compared to the third quarter of 2007, GDP remained unchanged in calendar-adjusted terms, which is lower than the forecast in the October Monetary Policy Report, where GDP was expected to increase by 0.8 per cent. It was primarily household consumption expenditure that was weaker than expected. This figure fell by 0.2 per cent compared to the same quarter last year. The forecast was for an increase of 1.6 per cent. This is the first time since 2001 that there is a decline in the volume of household consumption. Expenditure on the purchase and maintenance of vehicles had the largest negative effect on consumption. Foreign trade was also weaker than expected.

- The National Institute of Economic Research's Economic Tendency Survey, which summarises the mood in the Swedish economy, continued to fall in October and November, and the situation is "much weaker than normal". All of the sectors included in the Economic Tendency Survey have weakened substantially, and the confidence indicator for the business sector has fallen to a new all-time low since the monthly surveys began in 1996. Households' views of the economic situation are much gloomier than normal. The purchasing managers' index for the business sector is also at a historically low level. Industrial production, orders and retail trade turnover are also falling. All in all, this indicates a continued weakening of activity in the business sector during the fourth quarter.

- The number of persons employed according to the AKU labour force surveys was slightly higher in October than was forecast in the most recent Monetary Policy Report. However, labour market indicators clearly point to an upcoming decline in the labour market. The number of persons receiving notice of redundancy has increased rapidly in recent months. In October almost 20,000 persons received notice of redundancy, and the preliminary figures for November are equally high. These are the highest figures since November 1992. At the same time, the number of new vacancies registered is continuing to decline, and according to the National Institute of Economic Research's Business Tendency Survey for November, companies have very pessimistic expectations of the future. An increasing number of companies are expecting to need to make personnel cutbacks in the coming months.

- The number of hours worked was slightly weaker than expected during the third quarter. Statistics Sweden has not revised the figures for earlier quarters in actual terms, but as a new seasonal adjustment has been made, the most recent quarters' growth appears much weaker. Productivity growth was slightly less negative than expected.

- According to the National Accounts for the third quarter, hourly wages increased by 4.9 per cent compared with the same period last year. The forecast in the Monetary Policy Report was 4.5 per cent. Employers' contributions as a share of labour costs were also higher than expected. So despite productivity not being as weak as had been expected, unit labour costs nevertheless rose by 4.8 per cent, which was 0.4 percentage points more than the assessment made in October.

- Households' inflation expectations one year ahead, as they are measured in the National Institute of Economic Research's Consumer Tendency Survey, have continued to fall. Expectations fell to 1.9 per cent in November, from 2.5 per cent in October. This is roughly the same size as the downward revision the Riksbank has made to its inflation forecast for one year ahead. Households' inflation expectations have almost halved since July, when they amounted to 3.7 per cent. Inflation expectations as reflected in pricing on the bond market have also fallen recently. What is known as break-even inflation, calculated as the difference between 5-year rates on nominal and real bonds, is currently well below 2 per cent. As a result of the crisis in the financial markets and the unclear pricing, however, this type of measure must at present be interpreted with great caution. Companies' inflation expectations, which are measured quarterly, have also fallen; from 2.9 to 1.9 per cent between the second and third quarters.

- The annual rate of increase in the CPI amounted as expected to 4 per cent in October. Some of the upswing in inflation can be explained by rising mortgage rates. Households' interest expenditure increased by over 25 per cent in October, compared with the same month last year. The increase is partly a result of the Riksbank's earlier interest rate increases, but also a result of the financial crisis, which has led to an increase in the difference between the repo rate and the interest rate on variable-rate mortgages. The rate of increase in the CPIF, where mortgage rates are held constant, was 2.8 per cent in October. Energy and food prices have also risen substantially over the past year. When adjusted for household mortgage expenditure, energy and food, which together comprise around 30 per cent of the CPI, the annual rate of increase in the CPI was only 0.3 per cent in October.

The economic outlook and inflation prospects

The Riksbank's current assessment of economic and inflation prospects is based on the assessment made in the Monetary Policy Report in October and the update to the forecasts presented in this Monetary Policy Update.

Continued turbulence in the financial markets

The crisis in the financial markets has continued since October, despite massive measures taken by central banks and governments around the world. Although the policy rates in many countries have been cut, the interest rates the general public has to pay are in many cases high. In the euro area, the United States and in Sweden there are indicators showing that the conditions for loans have been tightened further. Credit growth has continued to slow down in the euro area. In the United States there has been a slowdown in lending to households in particular. However, in Sweden there are as yet no clear signs, in the official statistics, of a slowdown in bank lending to households and companies. The international stock markets have been volatile and there have also been large fluctuations in the foreign exchange markets.

The uncertainty over events will probably remain for some time to come. For Sweden the developments in the Baltic countries are particularly important, as Swedish banks have substantial operations there. A deterioration in the Baltic countries would have negative consequences for the Swedish economy. It could lead to higher costs for Swedish banks to refinance themselves, which would in turn lead to higher borrowing costs for Swedish households and companies.

Deeper decline in internatinal economic activity

Economic activity abroad has continued to slow down in a more synchronised manner and cost pressures have declined. Growth is negative in both the euro area and the United States. In many other countries, including those in Asia, developments have been weak. There are also clear signs that the weak economic developments will continue. Many forward-looking indicators are at historically-low levels. Developments in the world economy will thus probably be much weaker in the coming period than we expected in October.

The clear weakening in economic activity has led to a more expansionary economic policy and also to expectations of an even more expansionary policy in the coming period in many countries. At the same time, the oil price and other commodity prices have continued to fall, which increases the scope for consumption. A more expansionary policy and lower cost pressures are factors that are expected to contribute to a recovery in growth in the coming period. All in all, world growth is expected to fall from 3.5 per cent this year to around 2 per cent next year. During 2010 some recovery is expected and growth is forecast at around 3 per cent. In 2011, growth is expected to be just over 4 per cent. Compared with the assessment in October, the forecast for world growth in 2009 has been revised down substantially.

Falling commodity prices, together with a decline in resource utilisation, have contributed to lower inflation and also inflation expectations in many countries. The assessment is that inflation will decline further in 2009.

Weaker growth also in Sweden

In Sweden, too, there has been a rapid deterioration in economic activity. GDP growth was slightly negative both during the second and third quarters this year. The weakening was on a broad front. Growth in investment, exports and household consumption has slowed down. The indicators of future developments in Sweden are also at historically low levels. As for other countries, the new information received justifies a downward revision in the forecasts for growth, particularly those for the end of the current year and the first half of 2009. The assessment is now that GDP will fall by 0.5 per cent next year, which is a downward revision of 0.6 percentage points compared with October.

In 2010 growth is expected to increase to just over 2 per cent and the year after growth is expected to be 3 per cent. Increased demand from abroad, better functioning financial markets and a decline in uncertainty are important components in the recovery, as is the fact that fiscal and monetary policy will become more expansionary. The weakening of the krona is a further factor that is expected to contribute to higher growth in future.

■ ■ Growth in demand slowing down substantially

Investment is expected to fall by 3.5 per cent in 2009, which is a very large reduction of the expected increase of 4.1 per cent for the year. Housing investment, which comprises around 20 per cent of total investment, is expected to fall substantially in 2009. A negative development is also expected in 2010. It is primarily new construction that will slow down. Business sector investment is also expected to fall next year. Public sector investment is expected to increase substantially over the coming two years, partly as a result of fiscal policy measures to moderate the economic downturn. All in all, investment is expected to increase once again in 2010 and by 3.7 per cent in 2011.

Household consumption fell in the third quarter, and retail trade turnover in October indicates a further slowdown during the fourth quarter. The confidence indicator in the Consumer Tendency Survey has fallen to an all-time low in recent months, which indicates that consumption will continue to show a weak development. Stock market turbulence, a large increase in redundancy notices and developments in the housing market are expected to hold back household consumption in the coming period. The expansionary fiscal policy, with tax cuts and increasing transfers is expected, together with declining uncertainty to contribute to an increase in consumption growth at the end of 2009.

Foreign trade is affected both by weaker domestic demand and a slowdown in economic activity abroad. The very weak growth abroad in 2009 has a negative effect on exports. At the same time, the weaker krona means that competitiveness improves, although exports are nevertheless expected to fall slightly in 2009. As growth recovers abroad, the demand for Swedish exports will increase and exports will provide a substantial contribution to demand growth in 2010-2011. Imports will fall significantly next year as a result of both weaker domestic demand and falling exports, but a weaker exchange rate will also slow down imports. Later on in the forecast period imports will increase more quickly.

■ ■ Expansionary fiscal policy subdues economic downturn

The Government announced in its Budget Bill for 2009 that it would allocate around SEK 30 billion to discretionary fiscal policy, that is, measures to actively change taxes and public expenditure. When economic activity weakens, fiscal policy usually becomes more expansionary, according to historical patterns. The Riksbank's assessment is therefore that the Government will announce further discretionary fiscal policy allocations of SEK 15 billion in 2009 and SEK 40 billion in 2010, that is, a total of around SEK 85 billion, or just over 2.5 per cent of GDP. Given the substantial economic slowdown, the Riksbank assesses that this would be a relatively normal fiscal policy (see the box "Fiscal policy: assumptions and forecasts" in MPR 2008:3).

■ ■ Resource utilisation falling rapidly

The strong development in the labour market has taken a turn for the worse in the past six months, with falling employment and rising unemployment. Indicators such as a fall in job vacancies and a rapid rise in notices of redundancy point clearly towards a continuing rapid deterioration in the labour market situation. According to the Riksbank's forecasts, employment will continue to fall and unemployment will rise rapidly. In the second half of 2010 unemployment will be 8.5 per cent, which is 2.5 percentage points higher than at the beginning of 2008. The situation in the labour market is not expected to improve until the end of 2010.

Most of the measures of resource utilisation indicate that activity in the Swedish economy peaked at some point in 2007. The exact time of the turnaround is difficult to pinpoint even with hindsight, as different parts of the economy change at different paces. For example, production often turns before employment and the turning point for the construction industry and the retail trade often comes later than that for the manufacturing industry.

All in all, resource utilisation is currently considered to be close to normal. At the same time, the indicators of economic activity are all pointing towards a rapid fall in resource utilisation. Capacity utilisation will fall and the labour shortage will decline in all parts of the business sector. The weak economic activity will lead to resource utilisation being lower than normal over the coming years. At the end of the forecast period resource utilisation will rise again.

■ ■ Moderate wage increases

During 2009 almost the entire labour market will be covered by central wage agreements that have already been signed. According to the Swedish National Mediation Office, the centrally-agreed wage increases throughout the economy will be 3.0 per cent in 2009. The Riksbank's forecast for total wage increases is 3.6 per cent. This means that the wage drift (wage increases in addition to central agreements) will be the lowest since 1993. The deterioration in the labour market situation is a main reason for this.

For 2010-2011 the outcomes of the central wage negotiations are expected to be lower than during the agreement period 2007-2009, partly due to the weaker labour market situation. It is also probable that industry will again be the wage leader in the 2010 wage bargaining rounds. This could contribute to holding back the rate of wage increase, as international economic activity is expected to still be weak when the wage bargaining takes place in early 2010. But the measures to stimulate supply implemented by the Government are expected to contribute to keeping down the rate of wage increase, which will then be around 3 per cent.

The average productivity of the labour force has fallen in 2007 and 2008. In 2009 productivity is expected to rise more slowly than normal and then to rise at a more normal rate in the following years. The recovery in productivity, together with a lower rate of increase in wages, will mean that unit labour costs will increase more slowly in the future than have been the case in the past two years.

■ ■ Inflation will fall rapidly but then rise again

Inflation will fall rapidly over the coming months, mainly as a result of falling energy prices and falling interest expenditure for households. In November, CPI inflation is expected to have been 2.5 per cent, which is a decline of 1.5 percentage points compared with October. During 2009, CPI inflation will fall further and be on average just over 1 per cent. Towards the end of 2010 inflation will rise again and is expected to be close to the target of 2 per cent towards the end of the forecast period. The reason why inflation will rise again is that economic activity will improve and falling energy prices and interest expenditure will no longer affect the annual rate of increase in the CPI.

Compared with the October Monetary Policy Report the inflation forecast is being revised down for the entire forecast period. This is mainly because energy prices are expected to be lower. The lower energy prices will affect CPI inflation directly, partly through lower petrol prices and heating costs. In addition, inflation will be indirectly affected, through lower costs for companies. A counteracting factor is the exchange rate, which is expected to be weaker during the forecast period than was expected in October.

■ ■ Repo rate and repo rate path reduced substantially

To summarise, there has been an unexpectedly rapid and clear deterioration in economic activity. Economic activity will also continue to weaken in the future. Several economic indicators are at historically low levels. At the same time, the crisis in the financial markets is persisting, despite forceful measures that have been taken around the world. The turbulence has made it both expensive and difficult for companies and households to borrow money. The weak developments in the real economy have led to the oil price and other commodity prices continuing to fall, which has led to lower cost pressures. To dampen the fall in production and employment and counteract inflation being too low, the assessment is that a much lower repo rate is necessary. The fact that the interest rate needs to be cut substantially is also due to monetary policy not having such a large impact recently as it normally does. The Executive Board of the Riksbank therefore decided to cut the repo rate by 1.75 percentage points. After this the repo rate may in principle remain unchanged over the coming year. With a lower repo rate path the fall in resource utilisation will be slowed down and at the end of the forecast period it is expected to rise again. Inflation will fall rapidly next year and be below target over the coming two years. Inflation will then approach the target of 2 per cent a couple of years ahead.

Tables

The figures in parentheses show the forecast from MPR 2008:3.

Table 1. Inflation, annual average
Annual percentage change

	2007	2008	2009	2010	2011
CPI	2.2	3.5 (3.7)	1.2 (2.1)	1.5 (1.6)	2.1 (2.0)
CPIX	1.2	2.5 (2.6)	1.3 (1.6)	1.1 (1.3)	1.4 (1.5)
CPIX excl. energy	1.5	1.9 (1.8)	2.0 (1.6)	1.4 (1.5)	1.4 (1.6)
CPIF	1.5	2.7 (2.8)	1.7 (2.0)	1.4 (1.6)	1.7 (1.8)

Note. CPIX is CPI inflation excluding household mortgage interest expenditure and the direct effects of changes in indirect taxes and subsidies. CPIF is CPI with fixed interest rate.
Sources: Statistics Sweden and the Riksbank

Table 2. Inflation, 12-month average
Annual percentage change

	Dec. -07	Dec. -08	Dec. -09	Dec. -10	Dec. -11
CPI	3.5	1.9 (3.0)	1.5 (1.6)	2.0 (1.8)	2.2 (2.1)
CPIX	2.0	1.7 (2.3)	1.3 (1.4)	1.4 (1.4)	1.4 (1.5)
CPIX excl. energy	2.0	1.7 (1.6)	1.7 (1.6)	1.4 (1.5)	1.5 (1.6)
CPIF	2.4	1.9 (2.4)	1.7 (1.8)	1.7 (1.7)	1.7 (1.8)

Note. CPIX is CPI inflation excluding household mortgage interest expenditure and the direct effects of changes in indirect taxes and subsidies. CPIF is CPI with fixed interest rate.
Sources: Statistics Sweden and the Riksbank

Table 3. Repo rate forecast
Per cent, quarterly average values

	Q2 2008	Q3 2008	Q4 2008	Q4 2009	Q4 2010	Q4 2011
Repo rate	4.3	4.5	3.6 (3.9)	2.0 (3.2)	2.5 (3.4)	3.2 (3.8)

Source: The Riksbank

Table 4. Summary of financial forecasts, annual average
Per cent, unless otherwise specified

	2007	2008	2009	2010	2011
Repo rate	3.5	4.1 (4.2)	2.0 (3.3)	2.3 (3.3)	2.9 (3.6)
10-year rate	4.2	3.9 (4.0)	3.3 (4.0)	3.7 (4.5)	4.1 (4.8)
Exchange rate, TCW-index, 18 November 1992=10	125.2	127.2 (125.5)	134.3 (126.1)	128.8 (123.7)	126.9 (123.0)
General government net lending*	3.7 (3.5)	2.7 (2.7)	-0.2 (0.7)	-0.8 (-0.1)	-0.1 (0.2)

*Procent av BNP
Källor: SCB och Riksbanken

Table 5. International conditions
Annual percentage change, unless otherwise specified

GDP	2007	2008	2009	2010	2011
USA	2.0 (2.0)	1.3 (1.5)	-0.7 (0.3)	1.9 (2.3)	3.6 (3.0)
Japan	2.0 (2.0)	0.6 (0.6)	-0.1 (0.3)	0.7 (1.3)	1.6 (1.6)
Euro area	2.6 (2.6)	1.0 (1.1)	-0.8 (0.1)	1.1 (1.4)	2.1 (2.0)
OECD	2.6 (2.6)	1.3 (1.5)	-0.3 (0.6)	1.6 (2.1)	2.9 (2.6)
TCW-weighted	2.8 (2.8)	1.2 (1.4)	-0.6 (0.3)	1.3 (1.6)	2.3 (2.2)
Världen	5.0 (5.0)	3.5 (3.6)	1.9 (2.9)	3.2 (3.7)	4.1 (4.0)

KPI	2007	2008	2009	2010	2011
USA	2.9	4.1 (4.4)	0.8 (1.9)	2.2 (2.0)	2.2 (2.2)
Japan	0.0	1.6 (1.6)	0.6 (0.8)	0.8 (0.5)	1.0 (0.5)
Euro area (HICP)	2.1	3.4 (3.4)	1.5 (2.0)	1.8 (2.1)	2.1 (2.1)
OECD	2.4	3.7 (3.9)	1.6 (2.2)	2.1 (2.1)	2.2 (2.1)
TCW-weighted	2.0	3.3 (3.5)	1.4 (2.0)	1.8 (2.0)	2.0 (2.0)

	2007	2008	2009	2010	2011
Crude oil price, USD/barrel Brent	73	98 (105)	60 (92)	71 (96)	77 (98)
Swedish export market growth	4.0 (4.0)	1.8 (2.2)	-0.3 (1.5)	3.2 (3.8)	6.3 (6.1)

Note. Market growth for Swedish exports refers to growth in imports of goods for around 70 per cent of the countries that are recipients of Swedish exports. The forecast is weighted together on the basis of each country's share of Swedish export of goods.
Sources: IMF, Intercontinental Exchange, OECD and the Riksbank

Table 6. GDP by expenditure
Annual percentage change, unless otherwise specified

	2007	2008	2009	2010	2011
Private consumption	3.0 (3.0)	0.8 (1.7)	-0.7 (1.0)	2.2 (2.4)	2.6 (3.0)
Public consumption	0.4 (1.1)	0.9 (0.3)	0.7 (0.5)	1.3 (1.3)	1.0 (1.0)
Gross fixed capital formation	7.5 (8.0)	4.1 (3.5)	-3.5 (-0.5)	1.8 (1.8)	3.7 (2.3)
Inventory investment*	0.8 (0.7)	-0.4 (0.0)	-0.3 (-0.2)	0.0 (0.1)	0.1 (0.1)
Exports	5.7 (6.0)	3.2 (4.0)	-0.7 (1.2)	3.1 (4.4)	6.0 (5.9)
Imports	9.4 (9.6)	4.1 (5.2)	-2.3 (1.6)	2.6 (3.9)	5.4 (5.5)
GDP	2.5 (2.7)	0.9 (1.2)	-0.5 (0.1)	2.2 (2.5)	3.0 (2.8)
GDP, calendar-adjusted	2.7 (2.9)	0.6 (0.9)	-0.4 (0.2)	1.9 (2.2)	3.0 (2.8)

*Contribution to GDP growth, percentage points
Note. The figures show actual growth rates that have not been calendar-adjusted, unless otherwise stated.
Sources: Statistics Sweden and the Riksbank

Table 7. Production and employment
Annual percentage change, unless otherwise stated

	2007	2008	2009	2010	2011
Population, aged 16-64	0.9 (0.9)	0.8 (0.8)	0.4 (0.4)	0.2 (0.2)	0.0 (0.0)
GDP, calendar-adjusted	2.7 (2.9)	0.6 (0.9)	-0.4 (0.2)	1.9 (2.2)	3.0 (2.8)
Number of hours worked, calendar-adjusted	3.5 (3.5)	1.2 (1.7)	-1.6 (-1.2)	-1.0 (-0.6)	0.7 (0.5)
Employed aged 15-74	2.5 (2.5)	1.2 (1.2)	-1.3 (-0.9)	-1.3 (-0.9)	0.2 (0.2)
Labour force aged 15-74	1.5 (1.5)	1.2 (1.2)	-0.1 (-0.1)	-0.2 (-0.2)	0.0 (0.0)
Unemployment , aged 15-74*	6.1 (6.1)	6.2 (6.2)	7.4 (6.9)	8.4 (7.6)	8.2 (7.4)
Labour market programmes*	1.8 (1.8)	1.5 (1.6)	1.9 (1.9)	1.9 (1.9)	1.9 (1.9)

* Per cent of labour force
Source: Employment Service, Statistics Sweden and the Riksbank

Table 8. Wages and unit labour cost for the economy as a whole
Annual percentage change, unless otherwise specified, calendar-adjusted data

	2007	2008	2009	2010	2011
Hourly wage, NM	3.3 (3.3)	4.2 (4.2)	3.6 (3.7)	3.2 (3.5)	3.4 (3.8)
Hourly wage, NA	3.4 (3.3)	4.8 (4.6)	3.8 (3.9)	3.5 (3.8)	3.7 (4.0)
Employer's contributions*	0.3 (0.4)	-1.0 (-1.3)	-0.1 (-0.1)	0.1 (0.1)	0.1 (0.1)
Hourly labour cost, NA	3.7 (3.7)	3.8 (3.4)	3.7 (3.8)	3.6 (3.9)	3.8 (4.1)
Productivity	-0.8 (-0.6)	-0.7 (-0.7)	1.3 (1.4)	2.9 (2.8)	2.4 (2.3)
Unit labour cost	4.5 (4.3)	4.5 (4.1)	2.4 (2.3)	0.6 (1.1)	1.4 (1.8)

* 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 GDP at constant prices.
Sources: National Mediation Office, Statistics Sweden and the Riksbank

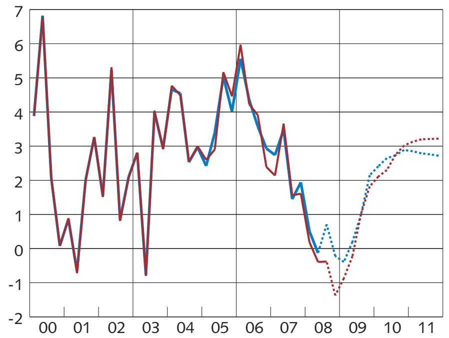
Tabell 9. Latest outcome and previous forecasts for central forecast variables
Annual percentage change, unless otherwise specified

	Period	Outcome	MPR 2008:3
GDP, calendar-adjusted	Quarter 3	0.0	0.8
Hours worked, calendar adjusted	Quarter 3	1.0	1.6
Employed, aged 15-74*	Quarter 4	0.8	0.3
Unemployment, aged 15-74*, **	Quarter 4	6.2	6.4
Exchange rate, TCW-index, level***	Quarter 4	134.5	130.5
CPI	October	4.0	4.0
CPIF	October	2.8	2.9
CPIX	October	2.7	2.8
CPIX excluding energy	October	1.8	1.8

* Outcome for Quarter 4 refers to October
** Percentage of the labour force, seasonally adjusted
*** Outcome for Quarter 4 refers to the mean value up to 1 December 2008
Sources: Statistics Sweden and the Riksbank

Figures

Figure 4. GDP
Quarterly changes in per cent calculated in annualised terms, seasonally adjusted data

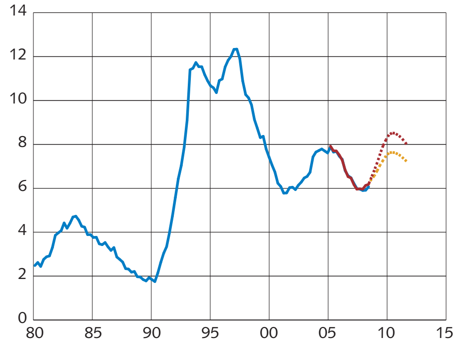


MPU December 2008
MPR 2008:3

Note. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Figure 5. Unemployed
Percentage of the labour force, seasonally-adjusted data

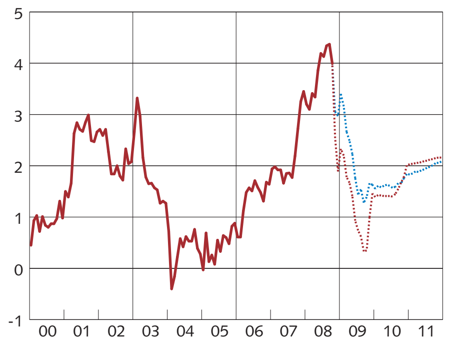


Unemployment 16-67 year
Unemployment 15-74 year
MPU Dec. 2008
MPR 2008:3

Note. Broken lines represent the Riksbank's forecast. Pre-1993 data has been spliced by the Riksbank.

Sources: Statistics Sweden and the Riksbank

Figure 6. CPI
Annual percentage change

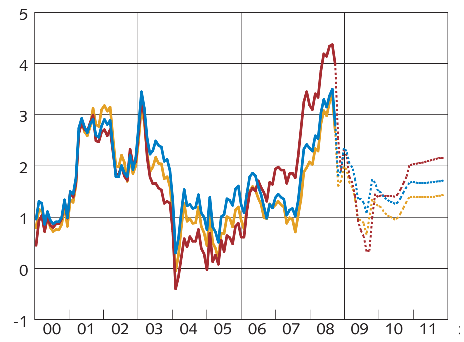


MPU December 2008
MPR 2008:3

Note. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Figure 7. CPI, CPIF and CPIX
Annual percentage change

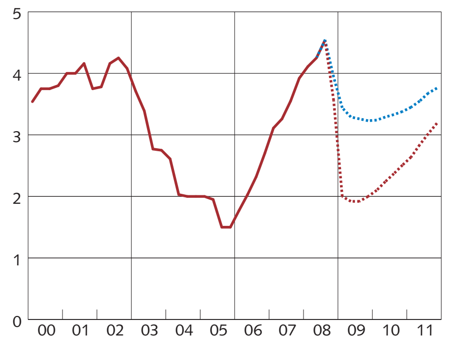


CPI CPIF CPIX

Note. CPIX is calculated as the CPI excluding household mortgage interest expenditure and the direct effects of changes in indirect taxes and subsidies. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Figure 8. Repo rate
Per cent, quarterly averages

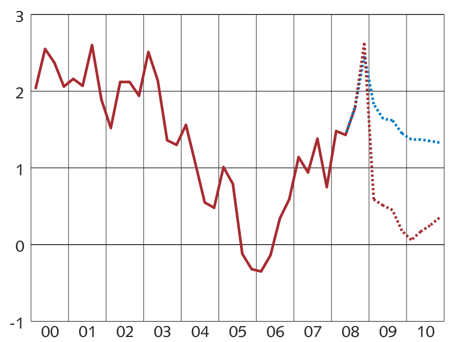


MPU December 2008
MPR 2008:3

Note. Broken lines represent the Riksbank's forecast.

Source: The Riksbank

Figure 9. Real repo rate
Per cent, quarterly averages

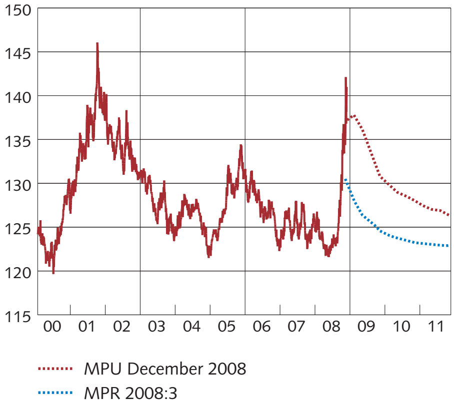


MPU December 2008
MPR 2008:3

Note. Real repo rate is calculated using the Riksbank's one-year inflation forecasts.

Source: The Riksbank

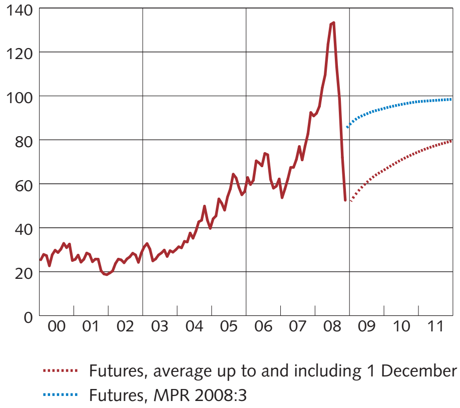
Figure 10. TCW-weighted exchange rate
Index, 18.11.92 = 100



Note. Outcomes up to 28 November 2008 represent daily rates and forecasts refer to quarterly averages. Broken lines represent the Riksbank's forecast.

Source: The Riksbank

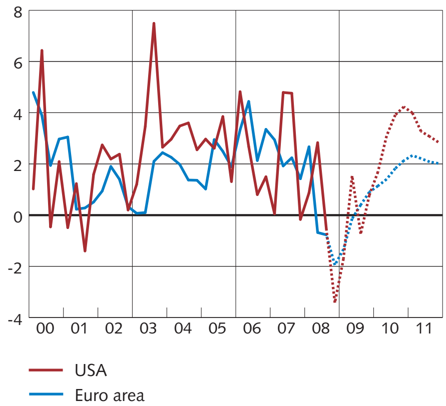
Figure 11. Oil price, Brent crude
USD per barrel



Note. Futures are calculated as a 15-day average. Outcomes represent monthly averages of spot prices.

Sources: Intercontinental Exchange and the Riksbank

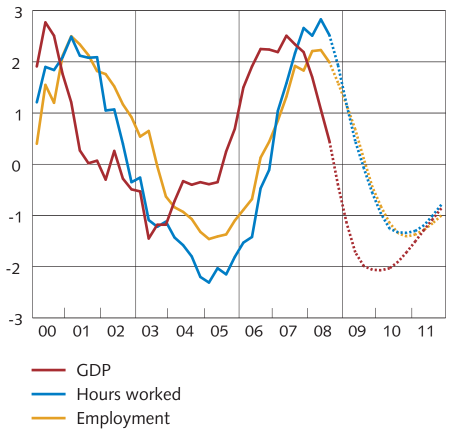
Figure 12. GDP for the USA and the euro area
Quarterly changes in per cent calculated in annualised terms, seasonally adjusted data



Note. Broken lines represent the Riksbank's forecast.

Sources: Bureau of Economic Analysis, Eurostat and the Riksbank

Figure 13. Estimated gaps
Percentage deviation from the HP trend



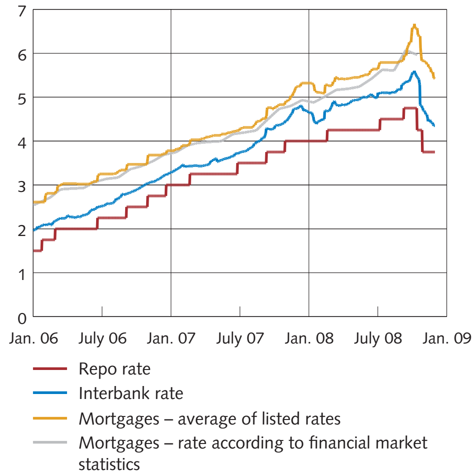
Note. Broken lines represent the Riksbank's forecast.

Sources: Statistics Sweden and the Riksbank

Figure 14. Confidence indicators in the business sector
Seasonally adjusted net figures, monthly observations

Source: National Institute of Economic Research

Figure 15. Interest rates in Sweden
Per cent



Note. Refers to the average three month listed mortgage rates from banks and mortgage institutes, the three month interbank rate and the monthly average for three month mortgage rates for new loans according to financial market statisktics.

Sources: Reuters EcoWin, Statistics Sweden and the Riksbank