

MILLENNIUM EFFECTS ON ACTIVITY AND INFLATION

The transition to a new millennium little more than six months ahead calls for considerable adjustments in much of the economy and above all in the field of computer technology. It is conceivable that these preparations and adjustments will prove to be of a magnitude that has consequences for the real economy.

A variety of effects may arise. Additional or earlier IT investments and extra expenditure for consultants may generate increased demand up to the turn of this year. A temporary increase in production may also result from firms building up some additional stocks before the year-end so as to cope with any stoppages internally or among suppliers. Shifts in demand for certain categories of labour or goods may affect wage and price formation in segments of the economy. After the turn of the year, investment demand may then fall and stocks be reduced, leading to a temporary dip in production.

Effects of this type are probably at work in the economy over a couple of years rather than immediately before and after the turn of the millennium. Firms that need to replace hardware and software for the millennium transition will hardly do so at the last minute. In other words, the transition should already have had some effect on investment demand. In 1998, non-manufacturing investment in the corporate sector, for example, rose 15 per cent and it is possible that this sharp growth included increased IT investment for the millennium transition.

Macroeconomic effects may also arise if the millennium preparations are so inadequate that output is markedly disrupted. Such an effect on the real economy would probably be more concentrated to the turn of 1999.

Forecasters in different countries have attempted to estimate the impact of any effect on economic activity. However, as the assessments seem to rest on different

assumptions and cover different assortments of effects, the picture they provide is not uniform. The impact of the millennium is not considered separately in the inflation forecast that is presented in this Report. The main reason lies in the difficulty in making a quantified distinction between IT investments occasioned by the millennium transition and those that would have been made in any event. Still, the transition can be said to have been considered in the sense that adjustments by households and firms ought to be included in statistics and indicators of planned and implemented investments, stocks assessments, wage statistics for different occupational groups and so on, material that is used in turn for the assessment of inflation.

Concerning the risk of macroeconomic shocks around the turn of the year on account of production stoppages, no sizeable risks of this kind are suggested by the available information. In a survey by the Federation of Swedish Industries, 90 per cent of firms saw a limited risk of their own operations being disrupted. Experience from earlier stoppages in some countries (major power breakdowns in New Zealand and Canada, for example) also suggest that the effects on the total economy would be small even though the sector concerned suffers appreciable harm.

It is conceivable that the risk of production being disrupted that is currently reported by Swedish firms will change as the year-end approaches. Moreover, far-reaching international integration means that inadequate preparations in another country can affect production conditions in Sweden. It is therefore important to monitor the situation closely. The Riksbank studies macroeconomic statistics and indicators with particular reference to any signals of expected production stoppages and any signs of more marked shifts in demand or inflation on account of the millennium transition.