



Monetary Policy Update

December 2011

There is still substantial concern over sovereign debt in the euro area and the prospects for global growth have deteriorated. Greater fiscal policy tightening is expected in several euro area countries than was forecast in the October Monetary Policy Report. Now weaker developments are expected in the euro area in the coming years. In the United States, however, the situation looks somewhat brighter and growth in the global economy as a whole is expected to be relatively good. However, there is still uncertainty over future developments.

Growth in the Swedish economy has been strong so far this year, but there are clear signs that it is now slowing down. The poorer developments abroad, particularly in the euro area, will lead to lower demand for Swedish exports. Low confidence among households and companies will lead to lower consumption and to investment being postponed. The poorer economic prospects also lead to a weaker labour market. During 2012, unemployment is expected to rise somewhat. Underlying inflation is currently low and the weak domestic demand, together with poorer global prospects, will contribute to inflationary pressures remaining low for some time.

As economic and inflation prospects are less bright, the Executive Board of the Riksbank has decided to cut the repo rate to 1.75 per cent, and to adjust the repo-rate path downwards. A lower repo rate will lead to CPIF inflation stabilising around 2 per cent and resource utilisation stabilising around a normal level at the end of the forecast period.

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

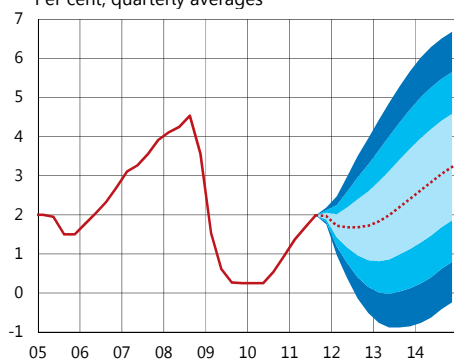


Figure 2. GDP with uncertainty bands
Annual percentage change, seasonally-adjusted data

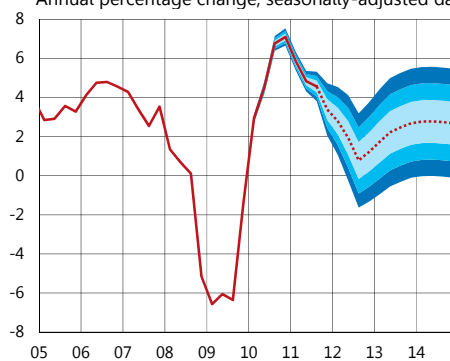


Figure 3. CPI with uncertainty bands
Annual percentage change

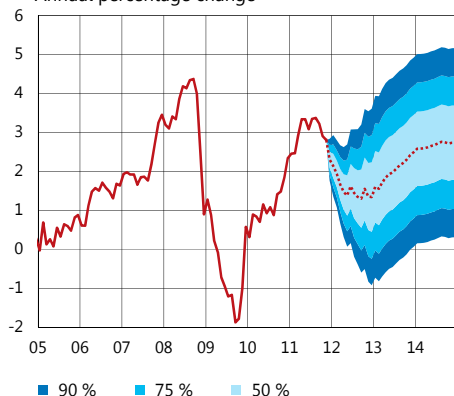
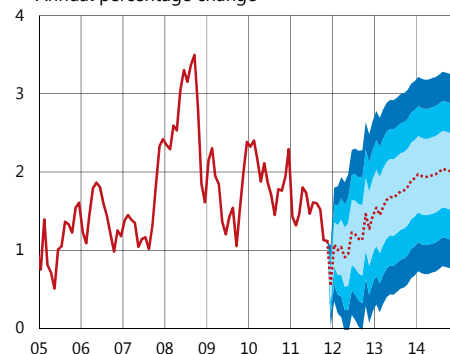


Figure 4. CPIF with uncertainty bands
Annual percentage change



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 economic outlook and inflation prospects

The economic 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 forecasts are based on the repo rate being cut by 0.25 percentage points and on the repo-rate path being lower than was assessed in October.

■ Poorer global growth prospects

In the recent period there has still been substantial concern over sovereign debt in the euro area, and the prospects for global growth have deteriorated. The fiscal policy tightening expected in several of the euro countries will be more far-reaching than was previously assumed. However, a more expansionary monetary policy will contribute to alleviating the negative effects on growth.

The economic prospects for the euro area in particular have deteriorated in relation to the Monetary Policy Report published in October. There are also signs of a slowdown in the emerging economies in Asia and Latin America, partly due to lower demand from the euro area. On the other hand, the situation in the United States looks slightly brighter now. Relatively good growth is still expected in the global economy as a whole.

■ Sovereign debt concerns and problem-burdened European banks

During the autumn, the financial markets have been marked by increasing concern over the sovereign debt crisis in Europe, which has been reflected in volatile stock market rates and increased pessimism among households and companies. National debt has increased quickly and is now very high in several of the euro area countries. Poorer growth prospects have contributed to distrust regarding certain euro countries' debt-servicing ability and the limited opportunities for financial support have increased doubts that the countries will be able to obtain short-term funding. Government bond yields in Italy and Spain have at times risen to very high levels, despite continued purchases by the ECB. Government bond yields in other European countries, such as France and Belgium, have also risen substantially during the autumn. The uncertainty over the problem countries is expected to remain high in the coming period, and the risk of weaker developments in the euro area is judged to have increased.

There is still uncertainty over developments in the European banking system, too. Some banks already have problems with capital adequacy and market funding. This risks leading to more restrictive credit granting. There are also some signs that European banks are already tightening their credit granting. The ECB's decision to offer the banks loans with unlimited allocation and a maturity of three years may alleviate these problems, however. The forecast assumes that the situation in the European banks will be strained, but not to the extent that confidence collapses and the financial markets cease to function. However, the markets will function less efficiently than normal for a period of time. From an international perspective, the Swedish banks are currently well-capitalised and they have extremely limited direct exposure to the problem countries in Europe. The Riksbank therefore judges that the Swedish banking system is well-equipped to withstand the financial problems in the euro area, and does not expect credit tightening above what is normal in an economic downturn.

■ Weaker growth in Europe

Decisive factors for growth prospects in the euro area in the longer run are the way the sovereign debt crisis is managed and the ability to improve competitiveness. The forecast is based on sufficient measures being taken to resolve the most acute and immediate problems in the euro area. This entails, for instance, an orderly renegotiation of the Greek national debt and the problems in the larger euro area countries not escalating. However, there is still a considerable amount of uncertainty. Fiscal policy will be tighter in several countries next year. Since the report was published in October, Italy, France and Ireland have announced new savings measures for 2012 and onwards to strengthen confidence in their ability to manage the debt crisis. In Italy and Greece, interim governments have been appointed with the task of managing the problems in the short term. Although the situation differs from one euro country to another, a slowdown is expected in all of the countries, and growth in the euro area as a whole is expected to be 0.2 per cent in 2012 and then to rise to around 2.3 per cent towards the end of the forecast period. This is lower than was assumed in the Monetary Policy Report in October.

During the course of 2011, EU leaders have made several decisions aimed at improving the economic policy framework in the EU and creating scope for support of euro area countries with debt-servicing problems. These measures are intended to limit the ongoing debt crisis and avoid similar problems in the future. In December, a new plan was presented that aims to tighten economic policy control within the EU. It is not yet entirely clear how the plan will be formulated, but the aim is to have a final draft ready in the spring. There was also a decision to give further funds to the IMF to improve the possibilities for short-term aid to euro area countries in crisis. There are also a few question marks remaining as to how the rescue fund European Financial Stability Facility (EFSF) will be extended.

In the United Kingdom, GDP growth is very weak. The primary reasons are poor developments in income and wealth for households and tight fiscal policy. In the short term, GDP growth in the United Kingdom is expected to fall. The increased risk of slower credit growth and the weaker demand abroad also have a negative effect on the United Kingdom's future growth prospects.

Inflation in the euro area was still 3 per cent in November and is expected to remain high in the coming months. The high inflation is largely due to high energy prices earlier in the year, but also to higher VAT in a number of countries. However, inflation is expected to be lower during the forecast period as a result of low resource utilisation.

■ Positive signs in the United States

The situation in the US economy looks slightly brighter in the short term. There are positive signs, such as household consumption continuing to increase, confidence improving from low levels, and the situation on the housing market looking slightly better. Although unemployment is high, the labour market situation is improving, albeit at a slow rate. However, US growth is expected to be slowed down in the coming period, mainly due to tighter fiscal policy. The parties in Congress have not yet agreed on a format for the long-term budget consolidation work, which means that fiscal policy will be automatically tightened during 2013 in accordance with decisions made earlier. GDP growth is revised down slightly for 2013, compared with the forecast in the October Monetary Policy Report. This is a result of the poorer growth prospects in Europe also affecting the United States. Inflation is expected to be low here.

■ Swedish growth slowing down

Growth in the Swedish economy has been strong so far this year. However, there are clear signs that it is now slowing down. A deterioration in developments abroad, particularly in the euro area, will mean that Swedish exports are hit by lower demand. Orders to the Swedish export industry have also slowed down.

Despite the surprisingly strong growth during the third quarter, it is clear that the unease on the financial markets has spread to the Swedish economy. A low level of confidence among households and companies has meant that household savings have risen and are expected to remain high, while companies are expected to postpone their investments. In the fourth quarter, Swedish GDP is expected to slow down considerably and then increase at a slower rate than was forecast in October.

However, the measures to consolidate debt-ridden economies, both in the euro area and elsewhere, are expected to gradually show results. Concern among companies and households, both in Sweden and abroad, will thus decline and during the second half of 2012 the foundations will be laid for a gradual recovery. In Sweden, fiscal policy has much more room for manoeuvre than in many other parts of the world, where significant tightening is expected in many areas in the coming years. Fiscal policy in Sweden is expected to be somewhat expansionary in 2013 and 2014, which together with an expansionary monetary policy will alleviate the weakening in economic activity in Sweden over the coming years. GDP in Sweden is expected to grow by 4.6 per cent in 2011, but by only 1.3 per cent in 2012. At the end of the forecast period GDP is expected to grow at an historically normal rate.

■ Cautious households

The stock market fall during the summer and autumn has led to a decline in households' financial wealth. At the same time, household confidence regarding economic developments has fallen to a relatively low level. Household saving has risen substantially and is expected to remain at a high level for some time. In addition, the housing market has slowed down. This has also meant that household indebtedness has continued to slow down. Higher mortgage rates and loan limits, such as stricter amortisation requirements and loan ceilings, contribute to a slower rate of increase in indebtedness. All in all, this means that consumption will be weaker than normal next year and will then grow by only 0.6 per cent. Going forward, as the economic situation stabilises and household wealth has recovered somewhat, households are expected to reduce their saving and increase consumption at a faster rate. At the end of the forecast period, consumption is forecast to increase by almost 3 per cent a year.

■ Swedish exports weakening

Swedish exports have continued to be strong this year, largely due to a favourable product composition and new market shares. However, lower exports of goods in recent months, together with falling orders, point to slower export growth in the coming period. From the fourth quarter of this year and during coming quarters the lower demand from abroad is expected to have an impact on Swedish exports. Exports are largely linked to investment goods and thus negatively affected when international investment activity declines. However, the product composition of the Swedish export industry means that export growth will also recover quickly at the end of 2012 when the effects of the financial

turbulence subside. Exports will grow by 1.9 and 4.5 per cent respectively in 2012 and 2013, and a little faster in 2014. Imports, which have so far this year shown relatively slow growth in relation to total demand, will normalise at the same time. This means that the contribution of net exports to growth will decline gradually during the forecast period.

■ **Slower investment**

Industrial sector investment in Sweden will slow down as a consequence of poorer export growth and weaker domestic demand. At the same time, the slowdown in demand means that companies will reduce the rate at which they build up stocks. As global economic activity strengthens during the second half of next year, however, the conditions will be right for a rapid recovery in investment. Swedish export companies will then need to expand their capacity, which means that industrial investments will pick up further in 2013.

The low consumer confidence and generally more cautious households mean that planned housing investment will be postponed somewhat. This year, the rate of investment will therefore be slightly lower than was forecast in October. However, the prospects for growth in housing investment are favourable, as demand is relatively high in relation to supply.

■ **Public sector finances in balance**

General government net lending is expected to be positive this year and amount to 0.5 per cent of GDP. Over the coming years, it will strengthen further. Nevertheless, general government net lending is now expected to be slightly lower than in the previous forecast. The Riksbank assumes, as in October, that the scope of the changes in expenditure and income tax will be approximately SEK 50 billion in total in 2013 and 2014. General government net lending is expected to be 0.8 per cent of GDP in 2014. At the same time, the national debt will decline to one of the lowest levels in the entire EU.

■ **Weaker labour market going forward**

The poorer economic prospects will also gradually affect the Swedish labour market. During 2011, employment has increased and unemployment has decreased, but it is now becoming increasingly clear that the improvement has ground to a halt. Despite a surprisingly strong GDP growth in the third quarter, the number of hours worked did not increase further, according to the National Accounts figures. The number of vacancies reported to the Swedish Employment Agency has levelled off in recent months and in various surveys companies are stating less often that they intend to increase their staff. During 2012 the employment rate is expected to decline slightly, the number of hours worked is expected to remain largely unchanged and unemployment is expected to rise somewhat. However, the historical correlation between changes in GDP and unemployment in relation to their long-term trends indicates that there is unlikely to be any dramatic increase in unemployment as a result of the lower growth prospects in the Swedish economy. As economic activity improves during 2013, the labour market will gradually begin to improve again. At the end of the forecast period, unemployment is expected to have fallen to around 6.5 per cent.

■ **Expansionary monetary policy will contribute to a normalisation of resource utilisation**

As there is no simple way of measuring resource utilisation, the Riksbank uses a number of different indicators and statistical methods to make its assessment. Capacity utilisation in

industry has fallen, according to the National Institute of Economic Research's most recent economic tendency survey, and shortages of labour have declined in most sectors. The Riksbank's indicator that summarises information from surveys and labour market data points to resource utilisation having fallen during the third quarter, to slightly below the normal level. Other indicators, such as unemployment, the employment rate and the hours worked gap, point to more spare capacity than normal in the economy. The Riksbank's overall assessment is that resource utilisation will be lower than normal over the coming years. An expansionary monetary policy will contribute to resource utilisation normalising during 2014.

■ **Industrial sector agreement complete**

Negotiations on new wages have just been concluded for most of the industrial sector's central wage agreement areas. These central wage agreements cover around half a million employees. The level of the agreed wage increases was 3.0 per cent over a period of 14 months, which provides a guideline of 2.6 per cent calculated over one year. The outcome of the negotiations is expected to act as a norm for the rest of the labour market, as in previous years. Including wage drift, wages are expected to increase by on average 3.3 per cent a year over the coming years. Compared with the assessment in October, the rate of wage increase in the economy as a whole is expected to be slightly higher in 2012 and slightly lower in the following years.

■ **Low demand subdues inflation**

Underlying inflation is presently low, while CPI inflation is relatively high. In November, the annual rate of increase in the CPI stood at 2.8 per cent. The corresponding rate of increase in the CPIF, that is, the CPI with a fixed mortgage rate, was only 1.1 per cent. The low resource utilisation, stronger exchange rate and low rate of increase in unit labour costs in recent years have contributed to holding back CPIF inflation.

During the forecast period, CPIF inflation will rise gradually and amount to around 2 per cent in 2014. This will occur at the same time as resource utilisation normalises and the rate of wage increase rises somewhat. CPI inflation, on the other hand, will fall rapidly over the coming year, partly as a result of the Riksbank's repo-rate cut. CPI inflation will be scarcely 1.5 per cent at its lowest point in 2012. After that, CPI inflation will rise gradually to just over 2.5 per cent 2014.

Compared with the forecast in October, CPIF inflation is now expected to be lower in 2012 and 2013. Inflation was unexpectedly low in October and November. The decline in the inflation rate was broad and not concentrated to any particular group of products or services. This indicates that underlying inflationary pressures in the Swedish economy are low. Moreover, weak domestic demand and low inflation abroad will contribute to lower inflation over the coming two years. The forecast for inflation at the end of the forecast period is largely unchanged, compared with the previous one.

The forecast for CPI inflation is being adjusted down more than that for CPIF inflation over the coming year. This is because the banks' interest rates on variable-rate mortgages are expected to be lower when the repo-rate path is revised down. However, these mortgage rates have increased more than is justified by earlier repo-rate increases, which is partly a consequence of the banks' funding costs having increased, and also a consequence of the banks having increased their margins on households' mortgages.

■ Lower repo rate and lower repo-rate path will alleviate weaker economic activity

Given the lower inflationary pressure and poorer economic developments, the Executive Board of the Riksbank has decided to cut the repo rate to 1.75 per cent and to revise down the forecast for the repo rate.

Since the October Monetary Policy Report, there has still been considerable concern over sovereign debt problems in the euro area, and economic prospects have deteriorated further. Developments abroad affect the Swedish economy partly through weaker export demand, and partly as lower confidence among households and companies subdues consumption and investment. Growth in Sweden is therefore expected to slow down further in the coming period, and unemployment to rise somewhat. All in all, resource utilisation is expected to be lower than normal during most of the forecast period. Cautious households and companies and low inflation abroad in the coming period will contribute to inflationary pressures in the Swedish economy being low.

One condition for resource utilisation and inflationary pressures normalising in the coming period, is that monetary policy will remain expansionary over the coming years. However, monetary policy will need to be gradually tightened. The repo rate will therefore be gradually raised to just over 3 per cent towards the end of 2014. This will contribute to CPIF inflation stabilising around 2 per cent and resource utilisation stabilising around a normal level at the end of the forecast period.

■ Economic developments are uncertain

The forecast is based on sufficient measures being taken to resolve the most acute and immediate problems in the euro area. This entails, for instance, an orderly renegotiation of the Greek national debt and the problems in the larger euro area countries not escalating. The political process for managing problems is continuing, but at the same time there is still unease on the financial markets. It is difficult to assess future political developments, and their consequences for the economy, and there is thus considerable uncertainty.

One cannot rule out the possibility that the public finance problems in the euro area in particular could become more serious and have more negative effects on the Swedish economy. Monetary policy would then need to be even more expansionary. Confidence among households, companies and financial markets can change quickly. If political decisions are made that restore confidence in economic developments, this could in turn lead to higher demand in the Swedish economy and higher inflationary pressures than was assumed in the forecast. This would reduce the need for expansionary monetary policy.

■ New information since the October Monetary Policy Report

International economy

- The prospects for the euro area in particular have deteriorated since the Monetary Policy Report was published in October, but relatively good growth is still expected in the global economy as a whole.
- In the euro area GDP increased by 0.6 per cent, compared with the previous quarter and calculated as an annual rate. This was in line with the forecast in the October Monetary Policy Report. Both domestic demand and foreign trade contributed to growth. Employment fell by 0.1 per cent in the third quarter, compared with the second quarter. There are signs that economic developments during the fourth quarter will be slightly weaker than was forecast in October. According to the purchasing managers' index, overall confidence in the services and manufacturing sectors will remain at low levels, while consumer confidence is weak. In October, industrial production declined for the second month in a row. In addition, unemployment rose to 10.3 per cent in October. Inflation measured as the HICP remained at 3 per cent in November.
- Since the October Monetary Policy Report was published, the EU/IMF has concluded its fifth review of the Greek economy and approved a further payment within the rescue package. The EU/IMF assess that Portugal meets the requirements that form the base for a further rescue payment, although the IMF has not yet made a formal decision on the payment.
- Revised preliminary statistics show that GDP in the United States increased by 2.0 per cent in the third quarter of this year, when compared with the previous quarter and calculated as an annual rate. Consumption and investment grew faster than expected. Consumer confidence and confidence in the corporate sector have on the whole improved, and consumption continued to rise in October. Employment growth was relatively weak in November, but earlier outcomes have been revised up. Unemployment fell to 8.6 per cent in November, partly as the result of a decline in the supply of labour. CPI inflation fell from 3.9 per cent to 3.5 per cent in October. Underlying inflation, measured as the CPI excluding energy and foods, rose slightly to 2.1 per cent in October.
- In Japan, GDP increased by 5.6 per cent during the third quarter, compared with the previous quarter and calculated as an annual rate. This was more than most analysts had expected. Inflation was -0.2 per cent in October, which was lower than in September. Growth in the emerging economies in Asia and Latin America has slowed down, but is still strong.

Financial markets

- The financial markets have been characterised by continuing concern over the sovereign debt problems in Europe. This concern has now also been more tangibly extended to cover Italy and Spain, where government bond yields have risen to the highest levels since the countries adopted the euro, despite continued rescue purchases by the ECB. Government bond yields in France and Belgium have also risen during the autumn, while Swedish, British and US bond yields have fallen to very low levels.

- On two occasions during the autumn the ECB has cut its policy rate by 0.25 percentage points. The ECB's policy rate is now 1.0 per cent. At the most recent monetary policy meeting in December, the ECB also decided to offer euro loans with a time to maturity of three years to the European banks, and with unlimited allocation. At the same time, they also reduced the requirements regarding the collateral the banks have to provide for the loans. The first loan will be made on 21 December.
- At the end of November, the ECB, together with the Federal Reserve and the central banks in Switzerland, the United Kingdom and Japan, halved the interest rate supplement for banks to borrow dollars from the central banks through auctions. At the same time, the central banks drew up bilateral agreements for lending in one another's currencies.
- Norges Bank cut its policy rate by 0.50 percentage points to 1.75 per cent in December. This was to dampen the effects on the Norwegian economy of weaker developments abroad, particularly in the euro area.
- During the autumn, monetary policy expectations measured as implied forward rates have fallen in the euro area, the United Kingdom and the United States. According to market pricing, the policy rates in the euro area, the United Kingdom and the United States will be held at very low levels for the whole forecast period. According to surveys, expectations of policy rates in these countries are at a low level, and no increase is expected until 2013 at the earliest.
- In Sweden, monetary policy expectations measured in terms of implied forward rates have fallen since the monetary policy meeting in October. According to this measure, the repo rate is now expected to be cut in stages by just over 1.0 percentage point up to summer 2012. Monetary policy expectations have also fallen, according to Prospera's survey in December, but they are still higher than market pricing one year ahead. According to surveys, money market participants expect the repo rate to be 1.8 per cent in two years' time, which is lower than the repo-rate path published in the October Monetary Policy Report.
- The listed variable mortgage rate has risen, although many listed fixed mortgage rates have fallen since the spring. The fall in fixed rates can be explained by the fall in bond yields and other long-term market rates in Sweden. All in all, the average listed mortgage rate for new loans is thus unchanged since the spring. The average interest rate paid by households has increased, however, as interest rates with longer durations are not renegotiated every month. The National Institute of Economic Research's survey on households' expectations of future variable mortgage rates shows that they are expecting mortgage rates to remain high. The interest rates companies pay are in principle unchanged since the summer.
- The krona has strengthened since the monetary policy meeting in October, and has also been somewhat stronger than the Riksbank forecast in October. Swedish macroeconomic statistics, such as GDP for the third quarter, have contributed to the strengthening.

GDP

- GDP in Sweden increased by 4.6 per cent during the third quarter compared with the same quarter last year (calendar-adjusted), and by 6.6 per cent compared with the previous quarter when calculated as an annual rate. The outcome was stronger than expected, but there are signs that growth will slow down tangibly in the fourth quarter. The unrest on the financial markets has contributed to subduing the sentiment of households and companies since the summer. Information on the manufacturing and services production sectors confirms the picture of weak growth going forward.
- Exports increased strongly in the third quarter. However, imports were weak, which meant that net exports contributed strongly to the increase in GDP. Monthly statistics on foreign trade in goods nevertheless point to a slowdown during the fourth quarter, both for exports and imports. The fact that exports will be weak is also confirmed by a decline in companies' orders.
- Household consumption was weak in the third quarter. Continued weak developments in retail trade and households' purchases of cars indicate that consumption will also be slow in the coming period. The low consumer confidence and slower developments in the housing market also contribute to this. At the same time, growth in lending to households has declined over the year.
- Growth in investment slowed down somewhat in the third quarter. Capacity utilisation in industry is at a normal level, and according to investment surveys companies are planning to continue increasing their investments. However, as economic activity is expected to be weak business sector investment is expected to increase at a slower rate going forward. Investments in stocks gave a positive contribution to GDP growth during the third quarter, but this was mainly due to consumption being weak and retail stocks growing.
- Expenditure on public consumption increased somewhat more than expected in the third quarter. At the same time, general government net lending weakened somewhat. This was partly because tax revenue was lower, as the number of hours worked and household consumption were weaker, and partly because public expenditure increased. General government net lending is expected to be 0.5 per cent of GDP in 2011.

Labour market

- During 2011 the Swedish labour market has entered a calmer phase. The rapid rate of increase in the number of hours worked has slowed down and the outcome for the third quarter was slightly weaker than was expected in the October forecast. The surprisingly strong increase in GDP thus also means that productivity was unexpectedly high.
- The fall in unemployment has come to a halt. Seasonally-adjusted unemployment amounted to 7.4 per cent in November, which is slightly higher than forecast in the October Monetary Policy Report. The labour force has been larger than expected, while employment has developed as forecast.
- Labour market indicators point to a clear slowdown in the coming period. The demand for labour has slowed down, which is reflected in the number of newly-reported

vacancies no longer increasing and the number of redundancies having increased. The National Institute of Economic Research's business tendency survey confirms that companies have become more restrictive in their recruitment plans since the summer. Additionally, fewer companies are stating that they experience a shortage of labour.

- The National Mediation Office's short-term wage statistics indicate that wages in the entire economy rose by an average of 2.3 per cent, calculated as an annual percentage change, during January to September this year. This figure will be revised up as retroactive wages are paid out. Wages are expected to increase by 2.7 per cent this year, which is a downward revision of around 0.1 percentage points compared with the assessment in October.
- According to the National Accounts, hourly wages in the whole economy increased by around 5.3 per cent, when calculated as an annual percentage change, in the third quarter of this year. This was more than expected and much more than indicated by the short-term wage statistics. Normally, there is only a small difference between hourly wages as shown in the National Accounts and according to short-term wage statistics. Various temporary factors, such as changes in bonus payments, changes in working hours between different years, and allocations of retroactive wage payments, contribute to the significantly stronger development of hourly wages according to the National Accounts. Our assessment is that the underlying development of wages in the Swedish economy has been more successfully captured in short-term wage statistics this year and last year.
- Growth in labour productivity in the economy as a whole was unexpectedly strong in the third quarter, which means that unit labour costs showed a slower development than was forecast in October.

Inflation

- The inflation rate was lower than expected in October. The inflation rate was still low in November, and the annual rate of increase in the CPIF, that is, the CPI with a fixed mortgage rate, amounted to 1.1 per cent. When adjusted for changes in electricity prices, the rate of increase in the CPIF was only 0.8 per cent. The decline in the inflation rate was broad and not concentrated to any particular group of products or services.
- The difference between CPIF inflation and CPI inflation is still substantial. CPI inflation amounted to 2.8 per cent in November. The high CPI inflation rate is mainly due to the rise in variable mortgage rates. Variable mortgage rates have increased much more than the repo rate. This can partly be explained by the banks' funding costs having increased, but is also due to the banks increasing their margins on mortgages to households.
- The Prospera survey conducted in December shows that inflation expectations among money market agents have fallen. In December, inflation expectations one year ahead were 1.6 per cent, expectations two years ahead were 1.9 per cent and five years ahead 2.0 per cent. The National Institute of Economic Research's economic tendency survey for November also showed a fall in inflation expectations compared with the previous month.

- Since the summer the oil price has fallen, and in November it was on average USD 111 per barrel. This was slightly higher than expected in the forecasts made in the October Monetary Policy Report. Forward pricing indicates that the oil price will continue to fall, but that it will be higher than was expected in October.

■ Tables

The figures in brackets show the forecast in the Monetary Policy Report in October 2011.

Table 1. Repo rate forecast

Per cent, quarterly average values

	Q3 2011	Q4 2011	Q1 2012	Q4 2012	Q4 2013	Q4 2014
Repo rate	2.0	2.0 (2.0)	1.7 (2.0)	1.7 (2.3)	2.4 (2.9)	3.2 (3.5)

Source: The Riksbank

Table 2. Inflation, annual average

Annual percentage change

	2010	2011	2012	2013	2014
CPI	1.2 (1.2)	3.0 (3.0)	1.5 (1.9)	2.0 (2.4)	2.7 (2.6)
CPIF	2.0 (2.0)	1.4 (1.5)	1.2 (1.3)	1.7 (1.8)	2.0 (2.0)
CPIF excl. energy	1.5 (1.5)	1.0 (1.1)	1.3 (1.6)	1.7 (1.8)	2.0 (2.0)
HICP	1.9 (1.9)	1.4 (1.4)	1.1 (1.3)	1.7 (1.8)	2.0 (2.0)

Note. The rate of change in the CPI is based on revised index figures, which may differ from the established index figures. The CPIF is the CPI with a fixed mortgage rate. The HICP is an EU harmonised index of consumer prices.

Sources: Statistics Sweden and the Riksbank

Table 3. Summary of financial forecasts

Annual average, per cent, unless otherwise specified

	2010	2011	2012	2013	2014
Repo rate	0.5 (0.5)	1.8 (1.8)	1.7 (2.2)	2.1 (2.7)	2.9 (3.3)
10-year rate	2.9 (2.9)	2.6 (2.6)	1.9 (2.4)	2.9 (3.4)	3.7 (4.0)
Exchange rate, TCW index, 18 November 1992=100	129.2 (129.2)	122.3 (122.6)	122.0 (122.3)	119.1 (119.7)	119.3 (119.9)
General government net lending*	-0.1 (-0.1)	0.5 (0.5)	0.4 (0.7)	0.4 (0.8)	0.8 (1.1)

* Per cent of GDP

Sources: Statistics Sweden and the Riksbank

Table 4. International conditions

Annual percentage change

GDP	2010	2011	2012	2013	2014
Euro area (0.14)	1.8 (1.8)	1.6 (1.6)	0.2 (0.7)	1.4 (1.8)	2.3 (2.4)
USA (0.20)	3.0 (3.0)	1.7 (1.7)	1.9 (1.8)	2.4 (2.6)	3.2 (3.1)
Japan (0.06)	4.5 (4.0)	-0.2 (-0.7)	2.1 (2.5)	1.5 (1.9)	0.8 (0.8)
OECD (0.55)	3.1 (3.1)	1.8 (1.8)	1.6 (1.8)	2.2 (2.4)	2.7 (2.7)
TCW-weighted (0.47)	2.0 (2.0)	1.4 (1.4)	0.8 (1.3)	1.7 (2.0)	2.4 (2.4)
World (1.00)	5.1 (5.0)	3.9 (3.9)	3.7 (3.8)	4.0 (4.1)	4.2 (4.2)

Note. The figures in parentheses indicate the global purchasing-power adjusted GDP-weights, according to the IMF, 2010.

CPI	2010	2011	2012	2013	2014
Euro area (HICP)	1.6 (1.6)	2.7 (2.7)	1.8 (1.6)	1.4 (1.4)	1.6 (1.7)
USA	1.6 (1.6)	3.2 (3.2)	2.0 (2.2)	1.2 (1.3)	1.4 (1.4)
Japan	-0.7 (-0.7)	-0.3 (-0.3)	-0.5 (-0.2)	-0.3 (0.3)	-0.2 (0.3)
TCW-weighted	1.6 (1.6)	2.7 (2.6)	1.8 (1.7)	1.4 (1.5)	1.6 (1.7)

	2010	2011	2012	2013	2014
Policy rates in the rest of the world, TCW-weighted, per cent	0.5 (0.5)	0.8 (0.8)	0.5 (0.7)	0.7 (1.2)	1.6 (2.2)
Crude oil price, USD/barrel Brent	80 (80)	111 (111)	107 (102)	102 (99)	98 (95)
Swedish export market	9.4 (9.3)	3.9 (5.5)	2.8 (4.7)	4.6 (4.8)	6.0 (5.4)

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.

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

Table 5. GDP by expenditure

Annual percentage change, unless otherwise specified

	2010	2011	2012	2013	2014
Private consumption	3.7 (3.7)	1.5 (2.4)	0.6 (1.4)	2.5 (2.1)	2.7 (2.2)
Public consumption	2.1 (2.2)	1.8 (1.3)	0.8 (0.6)	0.7 (0.7)	0.5 (0.5)
Gross fixed capital formation	6.6 (6.6)	5.9 (8.3)	2.1 (4.8)	3.8 (5.8)	4.8 (4.6)
Inventory investment*	2.0 (2.0)	0.6 (0.2)	-1.1 (-0.6)	0.0 (0.0)	0.1 (0.0)
Exports	11.1 (11.1)	8.5 (7.9)	1.9 (3.9)	4.5 (5.2)	5.5 (5.5)
Imports	12.7 (12.7)	5.7 (6.7)	-1.3 (3.6)	4.9 (5.8)	5.9 (5.3)
GDP	5.6 (5.6)	4.6 (4.2)	1.3 (1.5)	2.3 (2.4)	2.6 (2.5)
GDP, calendar-adjusted	5.3 (5.4)	4.6 (4.2)	1.7 (1.9)	2.3 (2.4)	2.7 (2.7)
Final figure for domestic demand*	3.6 (3.6)	2.3 (3.0)	0.8 (1.7)	2.1 (2.3)	2.3 (2.1)
Net exports*	0.0 (0.0)	1.8 (1.0)	1.5 (0.4)	0.2 (0.1)	0.3 (0.5)
Current account (NA), per cent of GDP	6.3 (6.3)	7.2 (6.4)	8.4 (6.6)	8.3 (6.5)	8.3 (6.6)

*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

	2010	2011	2012	2013	2014
Population, aged 16-64	0.5 (0.5)	0.3 (0.2)	0.1 (0.1)	0.0 (0.0)	0.0 (0.0)
Potential hours worked	0.9 (0.9)	0.5 (0.5)	0.4 (0.4)	0.3 (0.3)	0.3 (0.3)
GDP, calendar-adjusted	5.3 (5.4)	4.6 (4.2)	1.7 (1.9)	2.3 (2.4)	2.7 (2.7)
Number of hours worked, calendar-adjusted	1.7 (1.7)	1.3 (1.6)	0.4 (0.7)	0.6 (0.6)	1.0 (0.7)
Employed, aged 15-74	1.0 (1.0)	2.1 (2.1)	0.3 (0.5)	0.3 (0.4)	0.8 (0.6)
Labour force, aged 15-74	1.1 (1.1)	1.1 (1.1)	0.3 (0.2)	0.2 (0.2)	0.1 (0.2)
Unemployment, aged 15-74 *	8.4 (8.4)	7.5 (7.5)	7.5 (7.2)	7.5 (7.0)	6.8 (6.6)

* Per cent of labour force

Note. Potential hours refers to the long-term sustainable level for the number of hours worked.

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

	2010	2011	2012	2013	2014
Hourly wage, NMO	2.6 (2.6)	2.7 (2.8)	3.2 (3.1)	3.2 (3.3)	3.4 (3.5)
Hourly wage, NA	1.3 (1.3)	4.6 (3.9)	3.8 (3.3)	3.5 (3.6)	3.7 (3.8)
Employers' contributions*	-0.3 (-0.3)	-0.2 (-0.2)	0.1 (0.1)	0.0 (0.0)	0.0 (0.0)
Hourly labour cost, NA	1.0 (1.0)	4.4 (3.7)	3.8 (3.3)	3.5 (3.6)	3.7 (3.8)
Productivity	3.6 (3.6)	3.3 (2.5)	1.3 (1.2)	1.7 (1.9)	1.8 (2.0)
Unit labour cost	-2.5 (-2.5)	1.1 (1.1)	2.5 (2.1)	1.8 (1.7)	1.9 (1.7)

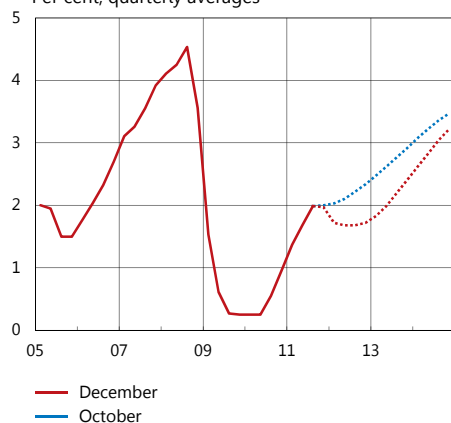
* Contribution to the increase in labour costs, percentage points.

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

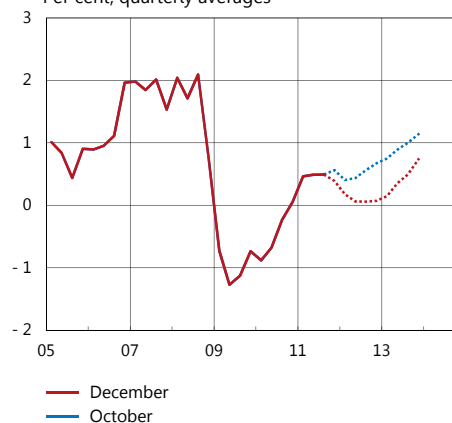
■ Figures

Figure 5. Repo rate
Per cent, quarterly averages



Source: The Riksbank

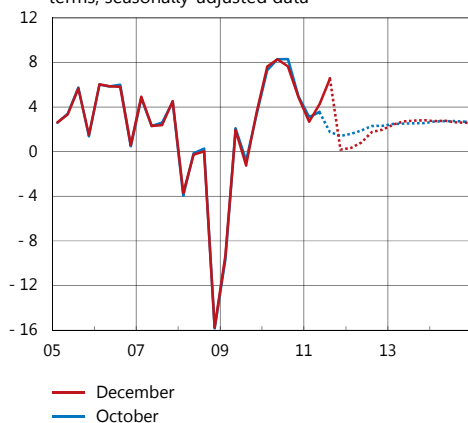
Figure 6. Real repo rate
Per cent, quarterly averages



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.

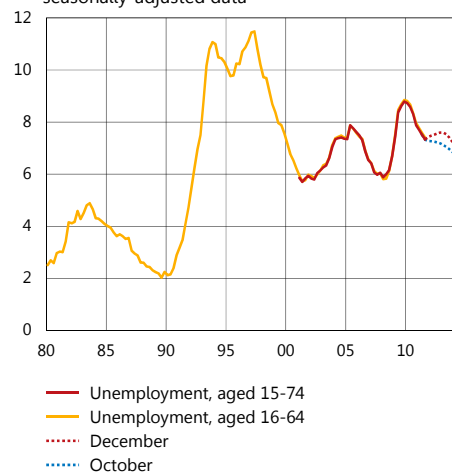
Source: The Riksbank

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



Sources: Statistics Sweden and the Riksbank

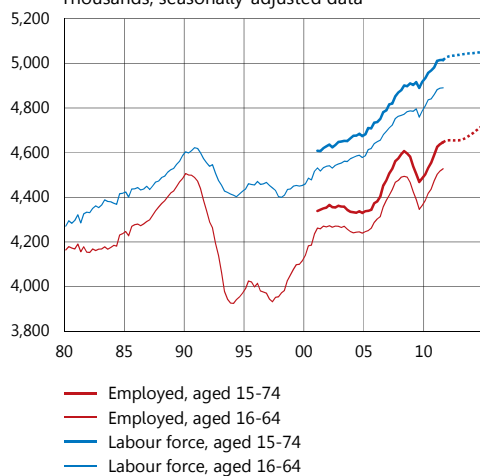
Figure 8. Unemployment
Percentage of the labour force, seasonally-adjusted data



Note. Pre-1987 data have been spliced by the Riksbank. The forecast refers to age group 15-74.

Sources: Statistics Sweden and the Riksbank

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



Note. Pre-1987 data have been spliced by the Riksbank.

Sources: Statistics Sweden and the Riksbank

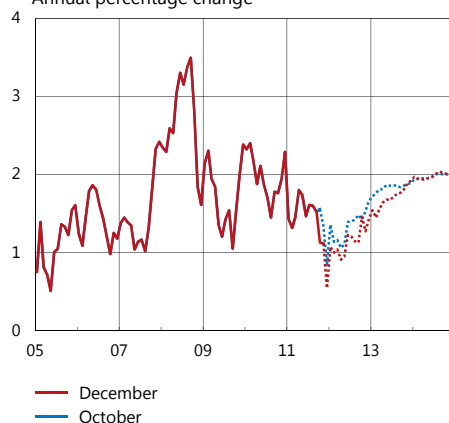
Figure 10. CPI
Annual percentage change



Sources: Statistics Sweden and the Riksbank

Figure 11. CPIF

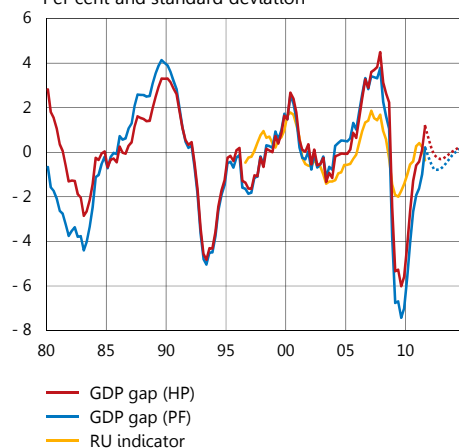
Annual percentage change



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

Figure 12. GDP-gap and RU indicator

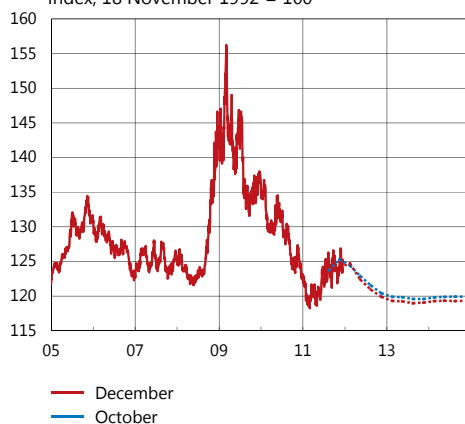
Per cent and standard deviation



Note. GDP gap (HP) refers to the deviation from trend in GDP calculated with a Hodrick-Prescott filter. GDP gap (PF) refers to the deviation from trend in GDP calculated with a production function. The RU indicator is normalised so that the mean value is zero and the standard deviation is 1.
Sources: Statistics Sweden and the Riksbank

Figure 13. TCW-weighted exchange rate

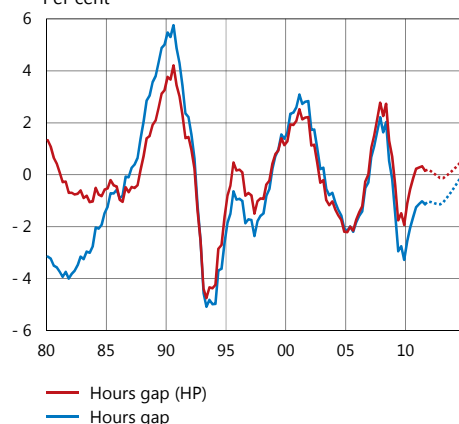
Index, 18 November 1992 = 100



Note. Outcome data are daily rates and forecasts are quarterly averages.
Source: The Riksbank

Figure 14. Hours gap

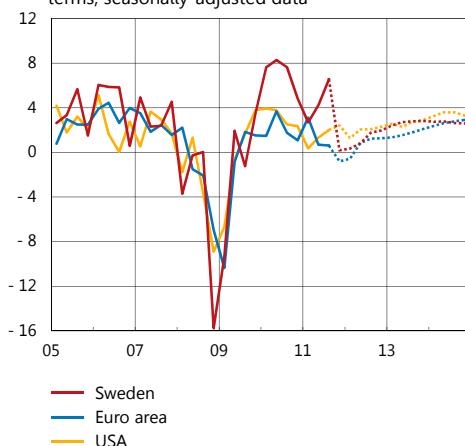
Per cent



Note. The hours gap (HP) refers to the deviation from trend in the number of hours worked calculated with a Hodrick-Prescott filter. The hours gap refers to the deviation in the number of hours worked from the Riksbank's assumed trend for the numbers of hours worked.
Sources: Statistics Sweden and the Riksbank

Figure 15. GDP in different regions and countries

Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data



Sources: Bureau of Economic Analysis, Eurostat, Statistics Sweden and the Riksbank