

Press Release

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Dawning optimism regarding upturn

Deputy Riksbank Governor Kristina Persson today gave a speech at a luncheon meeting in Östersund organised by the Rotary club. The speech was entitled "The Riksbank's role and the economic situation" and described Mrs Persson's assessment of economic developments since December last year.

"The Riksbank's latest Inflation Report painted a picture of a gradual recovery in both the global economy and the Swedish economy. The substantial changeover in economic policy, particularly in the USA, but also in other industrial nations, was the main indicator in favour of this. In Sweden, tax reductions and increased transfers vouched for a positive development in household income. Low interest rates and a recovery in the stock exchange after the terrorist attack in the USA should also have a stabilising effect on household wealth. At that time there was still no indication of a turnaround in economic activity; on the contrary the incoming statistics implied that the downturn in the major European countries risked becoming even deeper. My main concern was developments in the labour market, where the number of notices of redundancy had increased substantially and was expected to increase further. It appeared that at the end of the forecast period (in two years' time) there would still be vacant resources in the economy, which in my opinion created scope for continued monetary policy stimulation," said Kristina Persson.

"Over the past months, we have seen a number of signs that industrial activity in the USA is about to stabilise and that household consumption is developing more strongly than expected. It seems as though the American consumers have regained their confidence in the future. On the other hand, there is still uncertainty with regard to developments in the labour market. Unemployment in the USA has risen rapidly and if it continues to do so, households may reduce their consumption. There is thus a risk that the large imbalances built up in the US economy with a low level of household saving and large trade deficits abroad can be adjusted more rapidly than expected, which would have negative consequences for growth. At the same time, it is worth noting that productivity in the US economy is still strong, which could indicate that the 'new' economy does exist and can contribute to good economic growth.

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With regard to Europe, the new information does not provide such clear guidance. Although there have been a number of indications of a turnaround in Europe, too, recently, the main impression is that there is great uncertainty, particularly in Germany, where growth has fallen more than in other countries," continued Persson.

"Developments in Sweden last year may prove to have been slightly poorer than expected, judging by the national accounts figures for the third quarter. Trade statistics for the past few months also show a poor development in both exports and imports. At the same time, there are signs that the lowest point may have been reached with regard to industrial activity in Sweden. In the National Institute of Economic Research's latest survey, firms express slightly increased optimism. However, it is too early to speak of a stable turnaround in economic activity. The situation in the labour market is giving mixed signals. Although unemployment is continuing to fall, this development is divided into two parts, with declining employment in industry and still no downturn in the number of notices of redundancy. The number of new vacancies being registered has also continued to decline, albeit from fairly high levels. So, although it is possible to discern the light at the end of the tunnel, we may have some way still to go. The conclusion in the December Inflation Report still stands, with a relatively mild downturn in economic activity and a recovery beginning during the second half of this year," declared Kristina Persson.

"Despite the slowdown over the year, inflation has increased a little more rapidly than the Riksbank estimated in December. The high inflation rate during 2001 is assessed to be partly due to non-recurring supply disturbances that have led to higher prices on, for instance, meat, fruit and vegetables. However, even excluding these product groups inflation rose, which raises questions regarding the total resource utilisation in the economy. In recent months inflation has continued to increase slightly more than expected. This is worrying. At the same time, several surveys of inflation expectations for one year ahead have shown that expectations are now in line with the Riksbank's target. A stronger krona and lower oil prices should also contribute to lower inflation," concluded Persson.