

Press Release

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Worrying signals regarding wage trends

Deputy Governor Villy Bergström gave a speech at Bjursås sparbank's annual general meeting on Monday. Bergström discussed developments on the labour market and summarised economic developments since the December 2001 Inflation Report was published.

"We made an assessment in the Riksbank's most recent Inflation Report in December that international economic activity would make a recovery during the second half of 2002. Important factors behind this development were a continued adaptation of stocks and the investment levels that normally occur during an economic slowdown," said Villy Bergström.

"Incoming statistics from the USA provide support for this assessment. The subduing effect on demand is declining and activity in the American economy appears to be beginning to stabilise. However, if we are to see a lasting improvement, demand from the household and corporate sectors needs to pick up and provide support to the stocks cycle. If the positive stimulus from destocking is not reinforced by a lasting increase in demand, economic activity may be checked once again. A weak level of employment, continued savings imbalances and falling equity prices provide good reasons to carefully monitor developments. However, I believe that the risk of a continued downturn has declined. Although the total picture of Europe looks slightly brighter, it is becoming increasingly clear that Germany is having problems in getting the wheels of its economy to grind again. The prospects for the Japanese economy also look gloomy," continued Bergström.

"If we turn to Sweden, the Riksbank's assessment in December was that an international recovery, together with an expansive fiscal policy, low real interest rates and a weak krona are expected to contribute to a brighter outlook for the Swedish economy over the year. The strong central government finances enable stimulation of demand through tax reductions. Industrial activity seems to be reaching bottom and consumption has held up relatively well, also thanks to favourable developments in the labour market. At the same time, the GDP statistics for the first three quarters indicate a rather weaker development than the Riksbank had assumed earlier, although I believe that we can nevertheless expect a favourable development in 2002 and 2003," said Bergström.

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"Our assessment in the Inflation Report was that inflation would develop in line with the Riksbank's target. The outcome has been slightly higher than expected, both with regard to CPI inflation and underlying inflation," said Bergström.

"To some extent, the factors behind this larger price rise over the past year are temporary. The effects from these factors are expected to abate during the spring. However, if one removes these temporary factors, it still appears that other prices have risen more than expected. Explanations for this could be, for instance, that resource utilisation is higher than we had believed earlier, which has driven up costs for companies who have then transferred the increase in costs to consumers," said Bergström.

"Let me finish by saying that I feel some concern with regard to the signals coming in from the labour market. Today's rate of wage increase of over 4 per cent is rather on the high side of what the economy can tolerate in the long term, particularly with regard to the falling profit levels in trade and industry. An increase in productivity of approximately 1.5 per cent and an inflation target of 2 per cent give a scope for wage increases of a maximum of 3.5 per cent in the event of normal profit levels. Add to this the fact that wage increases for a number of professional groups are lagging behind. The differences in the rate of wage increase between different professional groups, for instance, nurses and teachers, professions that are dominated by women, risk giving rise to demands for compensation, which could hamper the prospects of a stable economic growth," continued Bergström.

"It is still too early to draw any clear-cut conclusions with regard to the consequences this will have for inflation prospects. Incoming statistics for both the international economy and the Swedish economy will be carefully analysed in the near future," concluded Bergström.