

From bad to worse

English summary

The Swedish Industrial economists expect that continued disturbances in global value chains in combination with a rapid tightening of monetary policy in the US will lead to significantly weaker global growth as well as in Sweden during 2022–2023 than previously expected. The war in Ukraine, sanctions against Russia and extensive lockdowns in China are causing new disruptions in global value chains. Extensive cost increases for companies in the wake of bottlenecks and accelerating energy and other commodity prices are hurting profitability and investments as companies cannot fully pass them on to consumers in the form of higher prices. However, consumer prices have risen to a certain extent and will continue to do so for a while and will have a negative effect on disposable income and household consumption. During the next year, we expect that further tightening of monetary policy in several countries will continue to dampen economic growth. It will slow down for both economic and structural reasons, the latter since underlying global potential growth is moderate.

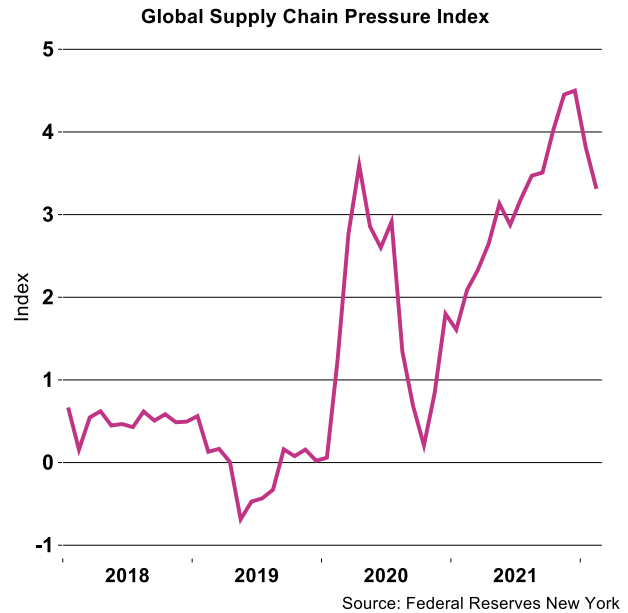
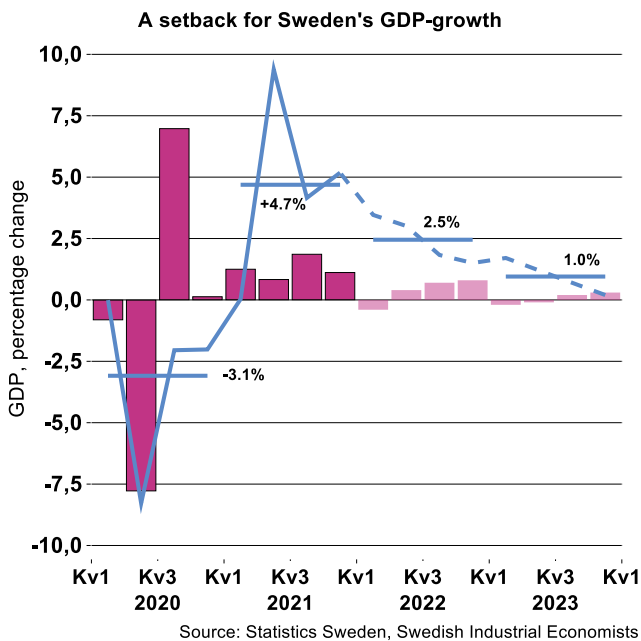
Even if the EU continues to buy gas from Russia, the region will still be significantly affected by the above-mentioned disturbances and will suffer a milder recession this year. The US is also expected to be hit by a mild recession in 2023, in this case driven mainly by the Federal Reserve's sharp monetary tightening. In such a scenario, we expect global GDP to increase by 2.5 percent in 2022 and 1.7 percent in 2023.

The deteriorating outlook for the normalization of the world economy after the pandemic is also dampening exports and investments in Sweden. Higher inflation, earlier rate hikes by the central bank than earlier expected and rising mortgage rates that follow, also counteract a normalization of household consumption. On the other hand, we expect public consumption in Sweden to increase relatively strongly both this year and next.

All in all, this results in significantly weaker GDP growth in Sweden in 2022 than we expected earlier, or 2.5 per cent compared with 3.4 per cent forecast in November of last year. Next year, GDP in Sweden is expected to increase by only one percent. With the information currently available regarding permits for limestone mining in Sweden, we assume that there will be an extensive shortage of cement in 2023, which will reduce all types of construction investments in Sweden next year. This, in turn, will indirectly affect Sweden's manufacturing production. As the industry in Sweden also has a high dependence on world trade and global economic growth, we expect industrial production to decrease by a total of two per cent in 2023 after an increase of two per cent this year.

The Swedish Economy

After the Corona crisis hit the Swedish economy in the second quarter of 2020, the manufacturing industry acted as the prime mover in the recovery thereafter, while household consumption continued to slow down due to restrictions. During 2021, however, more and more manufacturing industries experienced growing problems with shortages of inputs, which affected production negatively. In the beginning of 2022, indicators of companies' stocks of input goods showed a certain improvement and there were signs that delivery times had begun to become somewhat shorter. The lightening that could then be discerned has since been obscured by both the invasion of Ukraine and new lockdowns in China, which lead to continued disruptions in production and supply chains globally. We now assume that industrial production, exports and investments will be significantly affected by the new conditions that form the basis for our assessment.



The rapidly changing conditions in the Swedish and global economy this year are probably behind the fact that the household confidence indicator fell sharply in March. Confidence also fell as households are now expecting even higher inflation ahead and higher mortgage rates. This means an abrupt trend break in households' perceptions of the outlook for their own finances, which we expect will affect their consumption negatively soon.

On April 28, the Swedish Central bank, the Riksbank, announced that the key interest rate would be raised from zero to 0.25 per cent. We expect the policy rate will continue to be raised during our forecast period.

Households' real disposable income is expected to fall by 0.5 per cent this year, as consumer prices will rise more than growth of disposable income. We expect that households will choose to reduce their savings rate to maintain consumption relatively well. Its growth rate will slow to 2.8 per cent this year, according to our forecast. In 2023, real disposable income will increase slightly and despite a further decline in the savings rate, consumption is expected to grow even slower than this year, by 1.9 per cent.

The gloomier outlook for global demand results in significantly weaker GDP growth for this year than we expected in the autumn, 2.5 per cent compared with 3.4 per cent. 2023, GDP is expected to increase by only one per cent, as the world economy is hampered by a recession in the United States.

Growth of production in the Swedish Engineering Industry follows the growth in global GDP. Sweden's home market is limited and the Engineering industry's dependence on exports is high. However, the volatility of production growth in Sweden's Engineering industry is high compared with global GDP. It does not take much lower global growth for the production volume to decline sharply and vice versa. We expect global GDP growth this year of 2.5 per cent, which will shift down to 1.7 per cent next year. The volume of production in the Swedish Engineering industry is expected to increase by a total of two per cent this year. Next year, growth in production is expected to be zero.

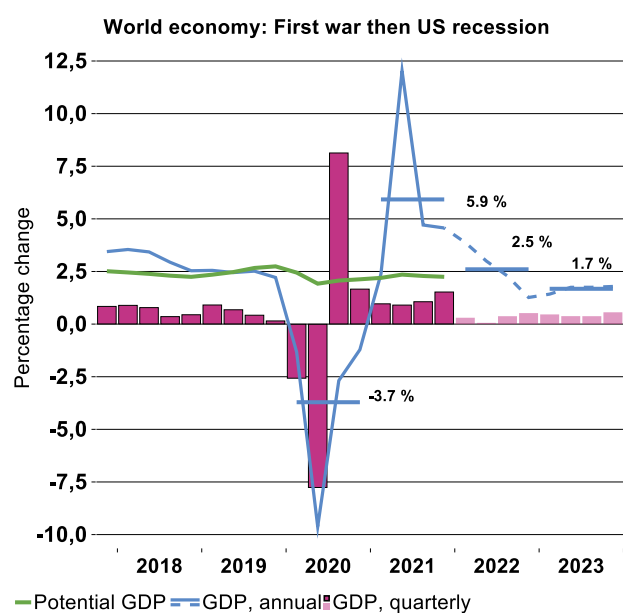
Due to the war in Ukraine, there is now some concern and high pressure on the wood products market. Russia is the world's largest exporter of wood products. This creates a great deal of uncertainty for European consumers and trade patterns need to be reviewed. In the Swedish forest industry, capacity utilization is high, which is why only a small increase in production can be expected in the coming years. Expansion of capacity takes time and is costly.

As a result of the increased e-commerce during the pandemic and in the upswing thereafter, the Swedish paper and board mills' production and deliveries of packaging materials has increased. Graphic paper, on the other hand, face structural lower demand for office and advertising paper as well as paper for newspapers.

Production in the steel and metal industry is affected by weaker demand in many steel-consuming industries, especially the global engineering industry.

Total industrial production in Sweden is expected to increase by two per cent this year. In addition to a slowdown in global economic growth, the manufacturing industry is also negatively affected by the problems regarding Sweden's cement supply. Several sectors in the industry in addition to the Engineering industry are dependent on Sweden's construction industry, a sector highly dependent on cement or concrete. We thus expect industrial production to decrease by two per cent in 2023.

USA



Source: Swedish Industrial Economists, World Bank

As is well known and as we have pointed out on several occasions, the most accurate recession indicator can be found in the US yield curve, i.e. the difference between interest rates on government securities with long and short maturities. With one exception, every episode since 1960 with the 10-year interest rate lower than the 2 (3) -year interest rate - an inversion of the yield curve - has been followed by a recession. In addition, there is no example (except of the Corona crisis) of a recession during the period not preceded by an inversion of the yield curve. Each episode of inversion has been preceded by a period of monetary tightening - rising policy rates.

This means that the yield curve can be expected to invert, i.e. short term interest rates higher than long term interest rates, in the beginning of 2023, which indicates a recession in the US later in 2023. Weak growth next year is also in line with other information that thus speaks in favor of a slowdown in both household consumption and investments. The Swedish Industrial economists therefore assume that the United States will experience a recession in 2023.

Eurozone

The overall assessment is that manufacturing production and investments in the Eurozone will fall during the second quarter of 2022 in particular.

Household consumption is expected to develop relatively subdued. Growth in the Eurozone is thus slowing down clearly 2022. In 2021, growth amounted to 5.6 percent and this year is estimated to amount to one percent. The previous estimate for 2022 was a GDP growth of just over three per cent. Quarterly growth is expected to be negative during the second and third quarter in 2022, which means that there will be a recession in the Eurozone this year.

We expect growth to rise gradually at the end of this year and in 2023. The situation will be a little less uncertain and the problems with bottlenecks will be less acute, but these factors will still hold back growth. In addition, the weak development in the US is holding back Eurozone exports in 2023. The development means that the Eurozone's GDP will remain well below an imaginary equilibrium path - potential GDP - during the forecast period. The pandemic, war in Ukraine and the US tightening monetary policy will have severe effects on the Eurozone economy, besides the effects of large and initial dependence on gas imports from Russia.

Key data

Sweden key data	nivå	2021	2022	2023
	Value added 2020 prices Bill SEK	Volume %	Volume %	Volume %
Manufacturing production total	638,4	8,2	2,0	-2,0
CPI(F), yearly average		2,4	5,2	2,4
<u>Supply and demand</u>	2020 prices Bill SEK	Volume %	Volume %	Volume %
Gross domestic product	4987	4,8	2,5	1,0
Gross domestic product, calender adjusted	4987	4,7	2,5	1,2
Household consumption	2188	5,8	2,8	1,9
Pubic consumption	1333	2,8	2,5	2,6
Gross fixed investment	1235	6,1	2,4	-3,9
Change in inventories, contribution pp	0	0,4	-0,1	0,1
Exports	2223	7,5	3,4	1,5
Imports	1992	9,4	3,5	0,9

International key data

Annual rate of change	Volume %	Volume %	Volume %
Gross domestic product	2021	2022	2023
Euroarea	5,6	1,2	0,7
UK	8,2	2,9	1,0
USA	5,8	2,2	0,9
China	8,8	4,0	4,3
Japan	1,8	1,5	1,4
India	9,0	8,5	6,0
Russia	4,8	-15,0	-18,0
Brazil	5,1	1,0	1,0
Global GDP, current exchange rates	5,9	2,5	1,7
Global industrial production	7,9	3,5	1,5
Global industrial production excl China	6,9	2,0	-2,0
Global production engineering industry	11,9	4,5	2,5
Global production engineering industry excl. China	10,0	3,5	-1,0

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Mats Kinnwall Chief Economist Teknikföretagen 08 -782 08 46 mats.kinnwall@teknikforetagen.se

Kerstin Hallsten Chief Economist Industriarbetsgivarna 08 -762 67 67 kerstin.hallsten@industriarbetsgivarna.se

Lena Hagman Economist Teknikföretagen 08 -782 08 46 lena.hagman@teknikforetagen.se

Joel Jensen Economist Industriarbetsgivarna 08 -762 67 55 joel.jensen@industriarbetsgivarna.se

Bengt Lindqvist Economist Teknikföretagen 08 -782 08 34 bengt.lindqvist@teknikforetagen.se

Robert Tenselius Economist Teknikföretagen 08 -782 08 32 robert.tenselius@teknikforetagen.se

