

Burdened by debt, interest and declining profits

English summary

Global inflation in the wake of rapidly rising energy and raw material prices has triggered an unprecedented rally in interest rates. In addition to the direct negative effects on households and companies, rising interest rates **have** contributed to a substantial drop in the world's stock markets and falling property prices, not least in Sweden.

Monetary policy has its full effect on the economy and inflation with a significant lag. This means that the interest rate increases that have already taken place have not yet taken effect with full force. Moreover, there is every reason to expect more monetary tightening in the coming months before central banks feel confident that inflation is really coming down. The Industrial economists assume that the central banks take their business idea extremely seriously and "do whatever it takes" to protect the inflation targets. Everything else suggests less well-functioning economies.

We expect a weak start to 2023 in large parts of the world. The exception is China, whose economy in the wake of the scrapping of the zero-covid policy will probably accelerate properly this year after a couple of lean years. Overall, we expect the world economy to grow by roughly 1.7 percent this year to pick up a bit more speed in 2024.

Sweden's economy is one of the economies that can be expected to be hit the hardest. In particular, the economy is hampered by households' very high financial indebtedness compared to other countries. In addition, many households have had variable

mortgages, which means that the households' finances are heavily exposed to rising interest rates.

At the same time, parts of Sweden and certain industries are in something that can be compared to a Klondyke atmosphere. The large investments that have already been made in northern Sweden or that are planned for the future together with high demand for energy equipment, create a desire for labor that keeps the labor market moving, especially in certain regions. Despite this, we expect Sweden's GDP to fall by 1.1 percent this year to grow slightly higher in 2024.

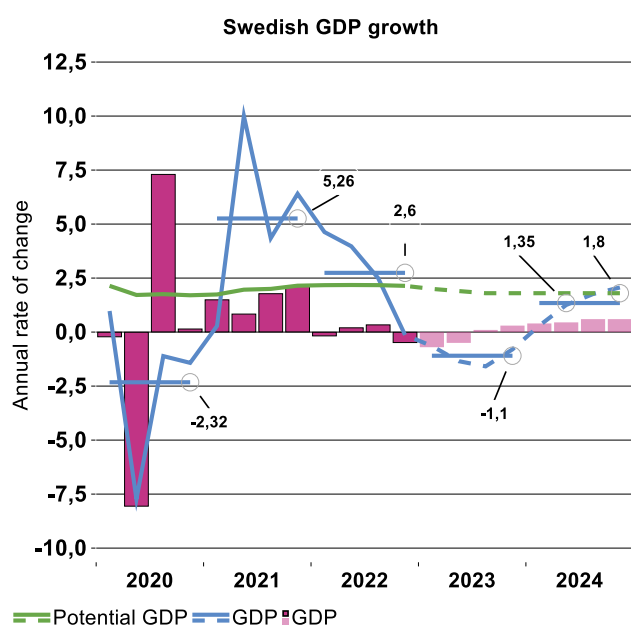
The interest rate increases implemented and planned by the Riksbank will, together with large base effects, quickly push inflation down during the year. On average, however, inflation will end up well above the target this year or 5,2 percent but will gradually decline towards the inflation target.



The Swedish Economy

The industrial economists expect GDP to fall consecutively during the first half of 2023, followed by a certain rise towards the end of the year, which in total results in a fall of a little over one percent during the year. After that, a stabilization takes place, after which GDP gradually picks up during 2024 with an annual growth of 1.4 percent (see figure below).

Our forecast means that the Swedish economy will grow more slowly than potential during most of the forecast period. This in turn means that the economy only got its nose above water for a short time after the pandemic. Households have had a tough year in 2022, real disposable income was largely unchanged for the whole year but developed very weakly during the year. Consumption did indeed grow compared to 2021 but fell sharply towards the end of the year. Falling household real incomes are very uncommon, having only occurred a few times in recent decades.



Source: Industrial economists, Statistics Sweden

Swedish households are significantly more exposed to rising interest rates than in other countries. Sweden stands out in terms of household indebtedness in relation to disposable income. In Sweden, the household debt ratio has increased rapidly and continuously, reaching almost 200 percent. In countries such as Germany and the USA, the debt ratio has fallen significantly for a long time to 100 percent.

We can also see how the Riksbank's interest rate increases in the past year have hit households' net interest income hard.

Industry economists also expect a further significant slowdown in profitability and investment over the next two years; - 2 percent and -2.5 percent respectively. However, the profile implies a proper bounce upwards in the latter part of 2024.

Building permits and housing starts signal substantial contraction in residential investment in 2023. The Industrial economists expect investments in housing to decrease by 15 percent in volume this year and construction investments by 8 percent overall. This clearly contributes negatively to Sweden's overall GDP growth, where construction investments make up eleven percent of GDP.

Sweden is a small open economy with a high dependence on trade. Therefore, it is not surprising that variations in Sweden's industrial production covary with global economic growth. We expect a global GDP growth of just under two percent this year, but it is expected to increase by just over two percent next year.

Industrial production in Sweden is expected to decrease by one percent this year. Production is estimated to decrease in the basic industry, in the engineering industry, but increase in other sub-sectors dominated by food/chemicals/pharmaceuticals. But with slightly higher global growth next year, total industrial production is expected to increase by two percent in volume.

Key data

Sweden key figures	Levl	2022	2023	2024
	2022	Volume %	Volume %	Volume %
Industrial production Value added fixed prices	791 Bill SEK	1,3	-1,0	2,0
- engineering industry (Nace 25-30,33)	360 Bill SEK	0,7	-1,0	2,0
-basic industry (Nace B,16,17,24)	214 Bill SEK	-3,2	-3,5	1,0
Labour market Sweden	1000 persons			
Employment total economy 15-74 years, 1000/ average annual rate of change	5000	2,7	-0,3	-1,0
Undemployment 1000, share of the labour force percent, average	419	7,4	7,9	8,6
CPI(F) annual average		7,7	5,2	2,2
GDP Bill SEK annual rate of change	5913	2,6	-1,1	1,3
International key figures				
Annual rate of change	Volume %	Volume%	Volume%	
BNP	2022	2023	2024	
Eurozonen	3,5	0,7	1,3	
USA	2,1	0,9	1,6	
Kina	3,0	5,0	4,2	
Japan	0,6	1,0	1,5	
Global at current exchange rates	3,0	1,7	2,2	
Global industrial production	3,1	1,5	2,5	

THE SWEDISH INDUSTRIAL ECONOMISTS ECONOMIC FORECAST

ISSN-1403-9559.

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

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

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

