



# Economics Group

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## Swedish GDP Growth Remains Solid to Start 2018

**GDP growth in Sweden in Q1 held steady over the quarter and rose on a year-over-year basis to 3.3 percent. Eurozone tensions present a downside risk to eventual Riksbank tightening towards the end of the year.**

### Swedish GDP Growth Keeps Steadily Climbing

Data released this morning on the Swedish economy showed real GDP growth holding steady at 0.7 percent quarter-over-quarter (2.9 percent annualized). With the gain, real GDP growth in Sweden continued its slow but steady climb higher on a year-over-year basis, eclipsing the 3 percent mark for the first time in nearly two years (top chart).

Offsetting moves by the various demand-side components of real GDP helped keep sequential growth steady in Q1. Private consumption was once again solid and has hovered in a tight range around 2.5 percent year over year for the past 12 months. Fixed investment spending accelerated in Q1 after a one-off decline at the end of last year. Government consumption remained fairly anemic, and trade was a drag on growth, as a small decline in exports of goods and services was matched by a 1.0 percent sequential increase in imports, particularly imports of goods.

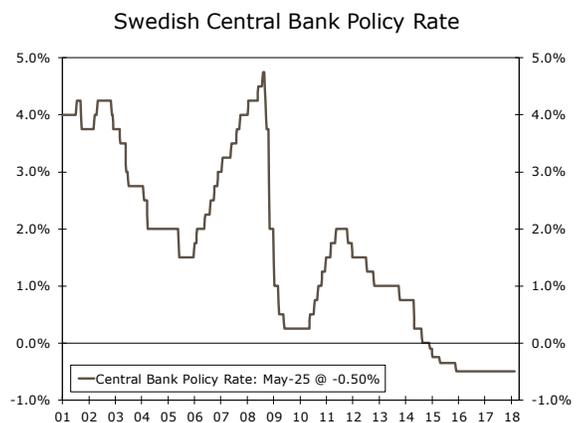
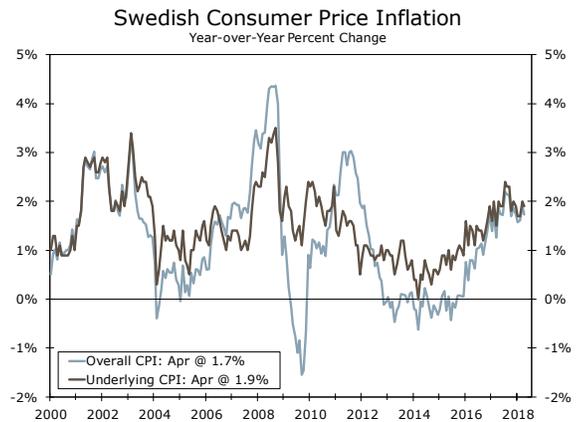
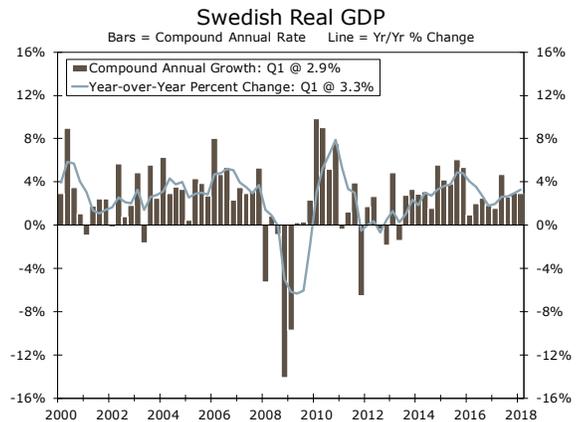
### Will the Riksbank Hike Before Year's End?

With economic growth and inflation both strengthening over the past 18 months or so in Sweden, expectations had been building last year for the Riksbank to begin slowly hiking interest rates by the middle of 2018.

Fast forward to today and these expectations have been tempered. Disappointing Q1 economic data in the Eurozone and many other developed economies took some of the wind out of the sails of the global momentum story that took hold in H2-2017. Swedish inflation, which had finally returned to the 2 percent target, has since shown signs of softening (middle chart). At its February meeting, Riksbank policymakers dialed back their inflation forecast for 2018 and stressed the importance of keeping inflation near 2 percent after a sustained period below the inflation target.

Then, at the last meeting of the Riksbank on April 25, the dovish signals sent in February were reinforced, as the central bank pushed back its expected liftoff date for the repo rate “until towards the end of the year.” The Swedish krona, which had been falling against the euro for most of the year, depreciated further in the wake of the news, though it has since rallied back some.

Looking forward, the turmoil in Europe over Italy, which began after the last Riksbank meeting, reaffirms the view that the Swedish central bank will wait until towards the end of the year at the earliest before beginning to hike the repo rate. With the krona having reversed course of late and our currency strategy team seeing renewed krona strength over time, this will present another headwind to inflation at the margin. Barring an unexpected move higher in Swedish price growth or a reacceleration in the Eurozone economy that spurs a more hawkish ECB, the Riksbank will likely remain cautious in the months ahead. Should things deteriorate further on the Continent, a repo rate hike from the Riksbank could get pushed back into 2019.



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