

Scandi Economics Update

Riksbank Minutes on the Agenda

- **Sweden — December minutes.** Today at 8.30 UK time, the Riksbank releases the minutes from the 17 December monetary policy meeting. At this meeting, the Riksbank board cut the key policy rate by 25bp to 0.75%, arguing that *"inflation has been unexpectedly low and, despite the recovery, inflationary pressures over the coming year are expected to be much lower than in the most recent forecast in October"*. With inflation (and risks to credibility for the inflation target) back in focus, the Riksbank lowered its conditional interest rate path by 24-55bp for next year; in turn, the Bank maintained its slight near-term easing bias (signals a 16% probability of another rate cut during the first half of next year), and postponed the timing of initial tightening until 1Q 2015 (from Oct/Dec-14 in the October MPR). The decision to cut was unanimous for the first time since Apr-2010, and all board members supported the conditional interest rate path (the first time since Feb-09). Although the two doves on the board, Ms Ekholm and Mr Floden, did not make any reservations at the December meeting, we would not be surprised if they had considered a larger rate cut.
- **Sweden — PM explains waning government support.** In an interview yesterday in the Swedish daily, *Dagens Nyheter*, Prime Minister and Moderate leader, Fredrik Reinfeldt, explains his party's and the alliance parties' drop in the polls as a sign that it costs to be the party in government. Meanwhile, the Prime Minister also tells the newspaper that he believes the alliance stands a good chance to recover ground in the election campaign where the focus will be on jobs and the economy. Comment: According to the latest poll from Novus/Ekot, the opposition now holds a majority in parliament (50.2%), with the government only getting backing from 38.8% of the population. Another recent poll by the Swedish newspaper, *Aftonbladet*, suggests that confidence in Mr Reinfeldt has plummeted (down 7pp to 56%), while confidence in the opposition leader, Mr Loeften has increased (up 9pp to 55%). In other words, the gap between the two leaders has been closed. The next General Election is scheduled for 14 September this year.
- **Sweden — Housing Minister against setting up a housing commission.** According to the Swedish daily, *Dagens Nyheter*, Housing Minister, Stefan Attefall (CD), is not supportive of Riksbank Governor Ingves' proposal of setting up a broad parliamentary housing commission to review the housing market, including measures to overcome low construction rates in Sweden. He argues that it only will delay the reform process further. He also stresses that he is against lowering the interest deduction. As his party was calling for lower property taxes at the latest general election, this should not come as a big surprise.
- **Sweden — Service PMI gains further in Dec** (see p. 2).
- **Norway — Manufacturing production expected to rebound in Nov** (see p. 2).
- Denmark — DNB Governor: High household debt burden no "serious threat".** In an interview yesterday, Central Bank Governor, Lars Rohde, reiterated that Danish households would survive higher interest rates or a loss of income despite having the world's highest household debt burden. For more, see p. 2.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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- **Sweden — Service PMI gains further in Dec.** Services sector PMI rose 0.7pp to 57.7 in December, broadly in line with our view (of 57.5). Service sector PMI has now been in expansionary territory for six consecutive months, and a reading of 57.7 points to strong momentum in the sector. The series, however, is volatile and one gets a more precise picture by looking at three-month moving averages. On this basis, service PMI has been hovering around 50 from mid-2012 to mid-2013, but moved up to 56.2 in 4Q – the highest since mid-2011. Comment: The Dec gain in service PMI is well in line with the ongoing improvement seen in NIER service sector sentiment; service sector sentiment, according to NIER, has increased steadily since late 2012, standing at 105.7 in December, 5.7 points above the historical average. Confidence in the retail sector stood at 103.8 in December, i.e. 3.8 points above the long-term average. Meanwhile, just as for the manufacturing sector, production data is lagging sentiment indicators in the service sector (actual service production was up 0.5% Q/Q in 3Q, only about offsetting the 0.5% Q/Q decline in the previous quarter). In other words, service production is only increasing gradually with no clear signs of acceleration. We note, though, that the broadly based upturn in service sector employment suggests that the service sector is in a better shape than suggested by production data. In turn, we expect the service sector to recover ahead.
- **Norway — Manufacturing production expected to rebound in Nov.** Today at 9.00 UK time, Statistics Norway publishes manufacturing production for November (Citi: 0.4% M/M, prior: -0.6% M/M). Short-term momentum in manufacturing has slowed in recent quarters, with the quarterly growth pace easing from 2.4% Q/Q in 2Q to 0.6% Q/Q in 3Q, and in October, manufacturing production surprisingly slipped 0.6% M/M. We expect a small rebound in November, but acknowledge the large decline in the orders index in the December PMI survey (51.4 vs. 59.4 in Nov), which indicate slower growth ahead.
- **Denmark — DNB Governor: High household debt burden no “serious threat”.** In an interview yesterday, Central Bank Governor, Lars Rohde, reiterated that Danish households would survive higher interest rates or a loss of income despite having the world’s highest household debt burden (of 321% of disposable income. Mr Rohde said: *“By far the major part of Danish households; debt is carried by families who are robust enough to be able to handle shocks to interest rates and income. The threat to financial stability from that corner is therefore not serious in the current situation”*. Finance Minister, Bjarne Corydon, joined in, saying that *“Before painting a picture that we are in an unsustainable, unhealthy situation, you have to consider how much we are saving [high pension and household equity levels]. We are saving an extreme amount in this field. We have to explain people outside of Denmark of the special Danish way of doing things”*. These comments follows the findings from the Systemic Risk Council that households with high debt levels in 2007 were more inclined to spend less during the economic crisis, and the following conclusion that the country’s record high level of household debt is hurting the economy.

Appendix A-1

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