

## Scandi Economics Update

■ **Sweden — Riksbank keeps rates steady and confirms easing bias.** As expected, the Riksbank (4:2 split) left the key policy rate unchanged at 1.0%, and only made minor fine-tuning to its rate path; the Bank maintains a near-term easing bias – but has lowered the probability from 24% in July to 12-16% – and continues to indicate an initial interest rate hike in late-2014. Judging from the press statement and the MPU, the Bank appears to have become more open in terms of focusing less on financial stability issues once the new macro prudential tools become operational. In turn, this should leave room for the central bank to use its policy instrument – the repo rate – more actively to get inflation back up to target. Hence, inflation data should become increasingly more important for monetary policy. As we forecast well-below target inflation in coming years, we reckon the RB should be in no rush to tighten monetary policy. We confirm our long-held view of stable rates throughout 2014, well in line with current indications from the RB. For more, see [Sweden - Riksbank On Hold, Confirms Easing Bias](#)

■ **Sweden — Weak momentum in service production** (see p. 2).

■ **Norway — Centre-right on course for election win.** The 2013 parliamentary election is scheduled to be held on Monday, 9 September. Opinion polls strongly suggest that the current red-green coalition will be ousted by the non-socialist block. Although the centre-right is on course for an election win, this should not change the broad outline of economic policy, in our view; given Norway's history of minority governments over the past five decades, compromises across political party lines have been frequent, even on far-reaching issues. In turn, differences among the two party blocks primarily concern tax cuts vs welfare spending and the degree of private sector involvement in the provision of services. Regardless of government, we reckon fiscal policy likely will be expansionary in coming years; the economic outlook and an assessment on how much room there is in the economy will remain key drivers behind fiscal policy, rather than who is in office. Even if the fiscal policy stance should turn more expansionary under a Conservative-led government (have promised tax cuts at the same time as maintaining spending on welfare and education), we do not expect a breach of the 4% fiscal policy rule ("under-spending" of the policy rule in recent years, leaves plenty of leeway for any new government). Hence, we see no lasting impact on financial markets from a change of government. For more, see [Norway - Centre-Right on Course for Election Win](#)

■ **Norway — Correction in manufacturing production in July** (see p. 2).

**Scandinavia — S&P: Funding risks fuel downside risks.** According to the US rating agency, Standard and Poor's, Scandinavia's biggest banks have failed to curb funding risks linked to financial innovation and will probably only avoid downgrades if national regulators force through stricter measures.

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

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- **Sweden — Weak momentum in service production.** Service production slipped 0.2% M/M in July, following a revised 1.1% M/M contraction in the previous month (-0.4% M/M before revision). In YY terms, output in the service sector fell 0.2%, following a revised 0.9% Y/Y drop in June, with the largest decreases in wholesale trade (-3.6% Y/Y) and transportation and storage (-2.4% Y/Y). Comment: Today's outcome was somewhat weaker than expected (Citi: 0.3% M/M, Consensus: 0.4% M/M), but confirms the weak momentum of late. In 2Q, service production contracted by 0.7% Q/Q and the July outcome was 0.6% below 2Q average. This is well in line with the weak momentum in service PMI; on a three-month moving averages basis, service PMI has been slightly below 50 for most of the past year, but rose to 51.7 in Jun-Aug 2013. NIER service sentiment, a better guide for actual production, though, improved further in August (now stands close to its long-term average), and point to a gradual upward trend in service production. On balance, the outlook for the service sector is mixed with the NIER survey indicating improvement ahead, while the low service sector PMI (in trend terms) questions whether this really is the case.
- **Norway — Correction in manufacturing production in July.** Today at 9.00 UK time, Statistics Norway publishes manufacturing production for July. Manufacturing production rebounded strongly in June, more than offsetting the May decline, leaving manufacturing production up by 2.5% Q/Q in 2Q (1.8% Q/Q in 1Q). The overall output in Norwegian manufacturing is now above the record levels seen before the financial crisis (June 2008). Meanwhile, recent Business Tendency Surveys (BTS) suggest that momentum in manufacturing will slow, although continuing to show positive growth on an annual basis. In other words, with sentiment below the long-term average, this suggests slightly below-trend growth in the sector ahead. In line with the volatility of the series, we expect to see a strong payback in July following the June jump (Citi: -2.3% M/M, Prior: 3.0% M/M).

## Appendix A-1

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