

Scandi Economics Update

New External Evaluation of the Riksbank's Monetary Policy

- **Sweden — New external evaluation of Riksbank's monetary policy.** The Swedish parliament's finance committee announced that it has appointed former Bank of England Governor, Mervin King, and Marvin Goodfriend, professor at Tepper School of Business at Carnegie Mellon University (USA), to evaluate the Riksbank's work in 2010-14. The review should evaluate if interest rate levels have been appropriate, if monetary policy has achieved its target and the Riksbank's focus on household debt. In addition, the review should evaluate the Riksbank's flexible inflation targeting framework and the Bank's inflation forecasts during the period. The evaluation is to be completed by end-2015.
- **Sweden — Support dwindles for big parties.** Voter support for the Social Democrats and the Moderates has never been so weak, shows the latest Sifo poll. With three months to go until the general election, the Social Democrats have the support of 29.4% of the electorate compared to 50.4% in 1994. The Moderates have the support of 21.2% of the electorate compared to 22.1% in 1994. The most interesting phenomenon is that voter support for the two largest Riksdag parties is continuing to implode, according to Swedish daily, *Svenska Dagbladet*, in an analysis earlier this week. The results for the other parties with the difference from the previous poll in brackets are as follows: Left Party 6.4% (-0.9), Greens 13.0% (+2.7), Centre Party 5.5% (+0.5), Liberal Party 6.8% (-0.2), Christian Democrats 3.5% (+/- 0), Sweden Democrats 9.0% (+0.2), Feminist Initiative 3.4% (+0.5).
- **Sweden — Improving consumer and mfg. sentiment in June** (see p. 2).
- **Sweden — Riksbank survey: Economic activity picks up** (see p. 2).
- **Sweden — New NIER forecasts.** Today at 8.15 UK time, NIER publishes new economic forecasts. In its latest outlook report from March, the think tank concluded that a *"tentative recovery has begun"*. The Confederation of Swedish Enterprises will also publish its updated economic forecasts today (at 9.00 UK time), and according to media reports, the Confederation revised down its GDP growth forecast for this year to 2.2% Y/Y.
- **Denmark — DNB sees no deflation risks, but sends warning on housing.** In its Monetary Review, out yesterday, the Danish Nationalbank raised its GDP growth forecast, now forecasting growth of 1.5% Y/Y this year, 1.8% Y/Y next year and 2.0% Y/Y in 2016 (up 0.1pp in all three years). Despite very low inflation at present, Governor Lars Rohde said that the Bank sees no threat from deflation as accelerating activity has brought the economy back to pre-crisis levels. The Bank forecasts inflation at 0.6% Y/Y this year and 1.8% Y/Y in 2016. Of further interest, the Bank noted that it is monitoring the decline in unemployment, as unemployment for some professions is now back at the same level as when the economy was *"overheating"* in 2006. On the housing market, Mr Rohde warned that *"Interest rates are close to zero and the housing market has self-reinforcing mechanisms....closer monitoring of developments in the housing and labour markets is therefore required"*. 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 — Improving consumer sentiment in June** (out at 8.00 UK time). Despite the uptick in consumer confidence in May, the indicator is still slightly on the low side compared to our private consumption forecast. This is somewhat worrying as household spending is expected to be the main growth driver behind economic recovery. Strong income growth, an improving labour market and higher asset prices, meanwhile, suggest that consumer confidence should improve further ahead (Citi: 101.2 in June, prior: 100.4). Improved sentiment in 2H 2013 has partly been reflected in hard data. Household inflation is expected to stay at a low level (1.1%).

Sweden — Improving mfg. confidence in June (out at 8.00 UK time). The Economic Tendency Indicator (ETI) slipped 3.6 points to 98.8 in May, and being 1.2 points below the historical average, the indicator now suggests that activity in the Swedish economy is slightly below a normal level. With a 7.8 points drop to 94.5, manufacturing confidence accounted for the bulk of the decrease, and with an outcome well below the long-term average, the survey suggests that recovery in manufacturing remains weak and somewhat bumpy. However, weakness in May was largely driven by lower expected production volumes and increased concerns over inventory levels, while current conditions improved a tad (both for production and orders). At the same time, confidence in domestic sectors remained broadly stable at fairly high levels, suggesting that underlying sentiment probably is somewhat stronger than suggested by the ETI. In June, we expect to see recovering manufacturing sentiment (Citi: 97.4, prior: 94.5).

■ **Sweden — Riksbank survey: Economic activity picks up.** In May, the Riksbank conducted its business survey among 46 medium-sized and large companies, and found that there has been small, but noticeable improvement in economic activity across most sectors. Increased demand from abroad has benefited the export companies at the same time as domestic demand has strengthened, in part due to an increase in housing construction and rising household consumption. *"It is expected that economic activity will continue to strengthen in Sweden, although there is some risk of setbacks in the global economy, for example as a result of the situation in China. A great challenge facing companies is weak profitability due to fierce competition. To raise productivity they plan to increase investments in new technology,"* the report said.

■ **Denmark — DNB sees no deflation risks, but sends warning on housing.** In its Monetary Review, out yesterday, the Danish Nationalbank raised its GDP growth forecast a tad, now forecasting growth of 1.5% Y/Y this year, 1.8% Y/Y next year and 2.0% Y/Y in 2016 (up 0.1pp in all three years). The Bank expects private sector demand to grow steadily over coming years, while public sector demand is seen rising at a more subdued pace. Despite very low inflation at present, Governor Lars Rohde said that the Bank sees no threat from deflation as accelerating activity has brought the economy back to pre-crisis levels. The Bank forecast inflation at 0.6% Y/Y this year and 1.8% Y/Y in 2016. Mr Rohde said: *"Although wage increases are modest, the low inflation at present is not a sign of deflationary pressures in the Danish economy"*. Of further interest, the Bank noted that it is monitoring the decline in unemployment, as unemployment for some professions is now back at the same level as when the economy was *"overheating"* in 2006. On the housing market, Mr Rohde warned that *"Interest rates are close to zero and the housing market has self-reinforcing mechanisms....closer monitoring of developments in the housing and labour markets is therefore required"*. Talking to reporters following the press conference, Governor Rohde explained in more details that: *"The combination of zero rates and zero amortization almost removes the boundary for where property prices can go,"* and *"if you on top of that add a tax system that is destabilizing to prices rather than stabilizing, then we have a cocktail that should be watched very carefully"*.

Appendix A-1

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