

## Scandi Economics Update

- **Sweden — Upbeat surveys suggest ongoing upward trend in house prices in July.** Today at 8.30 UK time, Statistics Sweden publishes real estate price data for one- and two-dwelling buildings. House prices recovered further in June, with home prices up almost 2% Q/Q and nearly 3% Y/Y in 2Q. House prices have recovered during the past five to six months, having moved sideways for the past few years. Short-term indicators point to ongoing upward pressure in the short term. Given the Riksbank's strong focus on financial stability, stronger momentum in the housing market could become a headache for the Bank. Key to watch are developments in household lending; in June, growth in loans to households was stable at 4.7% Y/Y, but there are early signs that household lending could be accelerating. In turn, we reckon the government and the FSA likely will introduce new measures to mitigate the gain in house prices and lending. Higher risk weights on mortgages and/or increased pressure on banks to demand amortizations are probably among the first measures.
- **Norway — General election on 9 September.** The issue of Norway's dependence on oil is likely to be a central theme in the elections in which polls indicate the opposition Conservatives have a strong lead. Erna Solberg, Conservative leader, has long warned of the dangers of Norway's over-reliance on oil and how it risks hurting the competitiveness of the real economy as wages increase faster than inflation. In an interview earlier this year with CNBC, Ms Solberg said that *"We are investing too little in research, development, infrastructure and all the things that we need to do to give us more things to stand on, economically. The difficulty is finding which area will give us the same earnings that we have from the oil and gas industry"*. In other words, if the conservative coalition gets a majority, it looks like increased spending of oil money. Such an increase in the spending of oil money and, hence, an even easier fiscal policy stance is likely to lead to a permanent real appreciation of the krone, a current increase in the neutral real interest rate and an even larger real appreciation of the currency in the short and medium term. This will imply reduced competitiveness of the tradable-goods sector (the export- and import-competing sectors exposed to international competition) and will most likely lead to reduced output, employment and profits in the tradable-goods sector. Monetary policy might be able to delay the real appreciation somewhat (by a few quarters or perhaps a year or so) by focusing on stabilizing the nominal exchange rate instead of inflation and the output gap. Such a monetary policy, by being in the short run more expansionary than current policy by Norges Bank, would over time most likely lead to increasing inflation and an overheated economy.
- **Norway — Credit growth.** Today at 9.00 UK time, June credit growth is out (Citi: 6.3% Y/Y, Prior: 6.4% Y/Y). Total credit growth has been surprisingly strong, contrasting with Norges Bank's loan survey. However, with moderation on the housing market, we expect household credit growth to slow slightly near-term. For more, see p. 2.
- **Norway — Mfg prod rebounds in June.** Mfg prod jumped 3.1% M/M in June, more than offsetting the 1.6% M/M drop in the previous month. For more, see p. 2.

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- **Norway — Credit growth.** Today at 9.00 UK time, Statistics Norway publishes credit growth for June (Citi: 6.3% Y/Y, Prior: 6.4% Y/Y). The latest lending survey from Norges Bank showed that household credit demand increased in the second quarter, in line with the monthly credit growth indicator for households which average 7.6% Y/Y so far in 2Q vs. 7.3% in 1Q. However, with the strong gains on the housing market moderating, we expect household credit growth to slow slightly near-term. The latest lending survey also showed a pick up in credit demand from non-financial enterprises, reflecting easier credit standards. The monthly development in corporate credit growth, meanwhile, has been in a downward trend since Jun-12, but picked up slightly in Apr (to 4.2% Y/Y vs. 3.9% Y/Y in Mar). Ahead, banks expect demand to be approximately unchanged in 3Q. In turn, we expect credit to households to remain in the area of 7.5% Y/Y in June, while credit to municipalities should fall slightly following ongoing gains in recent months (8.8% Y/Y in May, up from 7.5% Y/Y in March). We also expect credit to non-financial enterprises to correct slightly lower.
- **Norway — Manufacturing production rebounds strongly in June.** Manufacturing production jumped 3.1% M/M in June (in seasonally-adjusted terms), more than offsetting the revised 1.6% M/M drop in the previous month (-2.1% M/M before revision). This was much stronger than expected (Citi: 0.5% M/M, Consensus: 0.4% M/M). In annual terms, manufacturing production increased 6.1% versus a 2.8% Y/Y gain in May. Comment: Manufacturing production rebounded strongly in June, more than offsetting the May decline (this follows a strong rebound in April – likely inflated by a pick-up after Easter). This leaves manufacturing production up by 2.5% Q/Q in 2Q – the strongest quarterly gain in five years – suggesting a strong contribution from this sector to mainland GDP in the second quarter (out on 20 Aug). The overall output in Norwegian manufacturing is now above the record levels seen before the financial crisis (June 2008). That said, the demand-side indicators out thus far suggest that momentum in mainland GDP slowed during the spring (from 0.7% Q/Q in 1Q).

## Appendix A-1

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