



Monetary Policy Update

April 2010

The recovery in the world economy is continuing, with the support of extensive economic policy measures implemented by governments and central banks around the world. However, it is a slow recovery, which is starting from a low level and will develop differently in different regions. The poor international investment demand has hit Swedish exports particularly hard, as Sweden produces a relatively large amount of investment goods. However, the recovery abroad and expansionary economic policy should contribute to Swedish GDP beginning to grow again in 2010.

The labour market is developing more strongly than anticipated. The upturn in employment has begun and unemployment has stopped rising, which is surprisingly early given the large fall in GDP. However, unemployment is high and the current central wage bargaining rounds are taking place in a situation where the labour market is still weak. The wage agreements signed so far point to historically-low wage increases.

Inflation measured as the CPIF is now relatively high, but cost pressures are assessed to have begun declining. The krona is strengthening, which will lead to falling import prices, while wages are increasing more slowly. In addition, productivity is expected to recover. All in all, this means that companies will be able to increase production at a low cost during the forecast period.

The Executive Board of the Riksbank has decided to hold the repo rate unchanged at 0.25 per cent, to ensure that inflation will attain the target of 2 per cent and to provide support to the recovery. The forecast for the repo rate path also remains unchanged in relation to that in the February Monetary Policy Report. The financial markets are more stable now and the recovery is continuing. It is therefore appropriate to gradually move towards a more normal monetary policy. The Executive Board's assessment is that it will begin to increase the repo rate in the summer or early autumn. Another element in the normalisation of monetary policy is that the three fixed-interest rate loans granted in 2009 will mature.

Figure 1. Repo rate with uncertainty bands
Per cent, quarterly averages

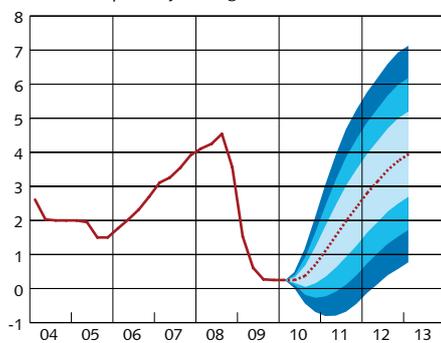


Figure 2. CPI with uncertainty bands
Annual percentage change

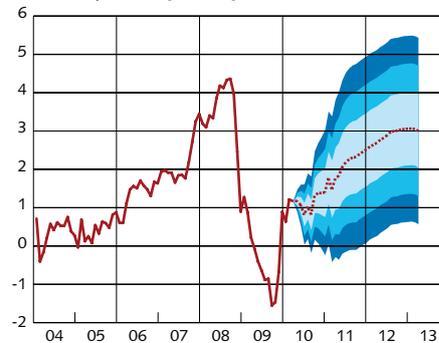


Figure 3. CPIF with uncertainty bands
Annual percentage change

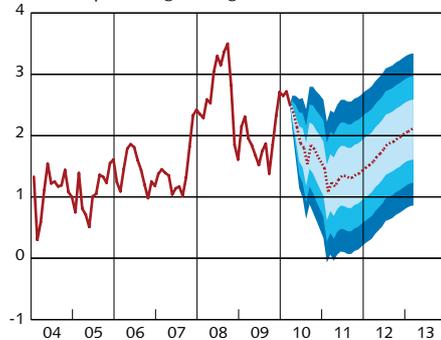
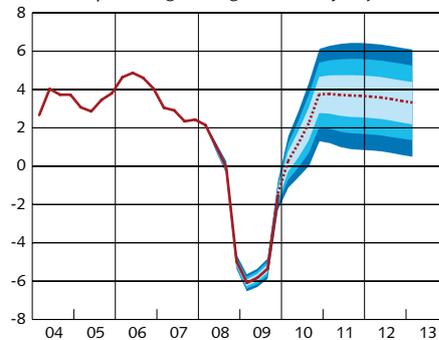


Figure 4. GDP with uncertainty bands
Annual percentage change, seasonally-adjusted data



— Outcome Forecast ■ 90% ■ 75% ■ 50%

Note. The uncertainty bands in the figures are based on historical forecast errors. See the article "Calculation method for uncertainty bands" in MPR 2007:1. The uncertainty bands for the repo rate are partly based on the ability of risk-adjusted market rates to forecast the future repo rate. This uncertainty band does not take into account the fact that there may be a lower bound for the repo rate.

Sources: Statistics Sweden and the Riksbank

■ The economic outlook and inflation prospects

The Riksbank's picture of economic and inflation prospects is based on the assessment made in the Monetary Policy Report in February and the update to the forecasts presented in this Monetary Policy Update. The forecasts are based on the repo rate being held unchanged at 0.25 per cent until the summer or early autumn. After this the repo rate will be raised and it will be around 4 per cent towards the end of 2012.

■ ■ The recovery in the world economy is continuing

The situation in the world economy is continuing to improve, and world trade has recovered further following the steep decline caused by the financial crisis. However, developments differ somewhat from region to region. The emerging economies in Asia account for a large part of the increase in demand, while the recovery has been more subdued in several of the established industrial nations. The recovery is still dependent on extensive economic policy measures implemented by governments and central banks around the world. These measures are stimulating the recovery, but have also entailed growing budget deficits, which could lead to a more marked rise in long-term interest rates in the countries where public finances have deteriorated the most. The various stimulation packages will be phased out and contractionary measures may be needed in the future. This will contribute to the economic recovery being drawn out. Over the coming three years the world economy is expected to grow by on average around 4 per cent a year. This is in line with the historical average for the growth rate, but entails a slow recovery in relation to the heavy fall in GDP that took place. The fact that the recovery is happening slowly is a normal pattern after a financial crisis. The assessment is roughly the same as in the Monetary Policy Report published in February. The growth forecasts for the USA and the euro area have been revised down slightly, while growth in, for instance, Japan is expected to be higher.

With regard to individual countries, such as Greece, the problems in public finances are severe, and this has created uncertainty over these countries' credit ratings. So far, there have not been any negative contagion effects to the global financial markets, but this nevertheless burdens economic developments in the euro area and creates uncertainty over future developments. However, the situation on the financial markets around the world is stable on the whole, and is not expected to present any obstacles to the economic recovery.

The recovery in the US economy is expected to continue. The policy rate is at a record-low level, the financial markets have stabilised, household wealth is rising and the improvement in the labour market appears to be taking place earlier than expected. There are now signs that employment has begun to rise and that unemployment is levelling off. Fiscal policy is expected to have a neutral impact on growth this year, while it is expected to be contractionary during 2011. Monetary policy expectations, in the form of implied forward rates, are for monetary policy to be less expansionary towards the end of the year. Higher energy prices have contributed to a rise in inflation in recent months. During the forecast period, however, a low level of resource utilisation will hold back cost pressures and the inflation rate is expected to be close to 2 per cent in the coming years.

GDP growth in the euro area was unexpectedly weak in the fourth quarter, while the upturn in confidence indicators temporarily slowed down at the turn of the year. This indicates that the beginning of 2010 will be weaker than anticipated and the picture of a slow recovery in the

euro area has thus been reinforced. GDP growth is not expected to approach historically more normal levels until 2011, which means that resource utilisation will be low in the coming years. Low resource utilisation and weak developments in wages are expected to hold back the rate of price increase. Inflation is expected to be just over 1 per cent in both 2010 and 2011. It is not expected to approach the inflation target until towards the end of the forecast period.

■ ■ Krona will appreciate

At the start of the financial crisis the Swedish krona weakened substantially, which is not unusual for small currencies when there is turbulence in the financial markets. As the markets have normalised, the krona has strengthened. Since the February report the krona has strengthened unexpectedly quickly. The strengthening is expected to continue in 2010, but at a slower rate. Compared with the assessment made in February, the krona is now expected to be stronger during the forecast period.

■ ■ Swedish economy will grow again in 2010

Following the largest fall in GDP during a single year since the Second World War, growth in Sweden is expected to be positive once again in 2010. Compared with the forecast from February, growth during the first quarters is estimated to be slightly higher. At the same time, the unexpectedly weak conclusion to last year means that the level of GDP in 2010 will be much lower than was forecast in February. GDP is forecast to grow by 2.2 per cent in 2010 and after that by an average of 3.4 per cent a year.

The situation in the economy is divided. The weak demand from abroad has hit industry hard, but the services sector has managed much better, as consumption has fallen considerably less than exports. The recovery abroad and an expansionary economic policy should contribute to Swedish GDP now beginning to grow again. Exports will pick up at the same time as domestic demand strengthens. But as the international economic recovery will take time, it will also be a while before the fall in Swedish GDP in recent years is recovered. However, Sweden has a more favourable basis for a recovery than many other countries, including good public finances that mean there is little need for fiscal policy constraint further ahead.

■ ■ Recovery from low export and investment levels

Exports fell heavily in 2009. Despite global trade having risen quickly again over the past six months, Swedish exports have shown a weak development. This is partly explained by the fact that it is mainly foreign trade in Asia that is showing a recovery. Asia comprises a relatively small part of the Swedish export market. However, the fact that world trade is now recovering at the same time as export orders are rising points to a turnaround also coming for Swedish exports. The poor international investment climate has hit Swedish exports particularly hard, as Sweden produces a relatively large share of investment goods. This will also hold back exports to some extent in 2010. However, during 2011 and 2012 Swedish exports are expected to grow in line with the export market. Imports also fell heavily in 2009, but are expected to increase when both domestic demand and exports accelerate.

Total investment is expected to begin to rise again, but at a slow rate, after falling by just over 15 per cent in 2009. Although capacity utilisation has recovered somewhat, it is still low, which indicates that the need for investment in the business sector will remain slow. But once exports

have picked up, investment in the business sector will gradually increase. Information from Statistics Sweden's investment survey also indicates that the turnaround in investment will come sooner than expected. In this survey manufacturing companies state that they are now planning to increase their investment compared with the previous year, which is a more positive picture than that painted in the autumn 2009 survey. Several factors point to investment in housing rising relatively substantially over the coming years. There is a great need for housing in parts of the country as a result of the increasing population, prices rising and the fact that it is now easier to start up new housing projects as the funding opportunities have improved. Construction companies also report considerable interest from the general public in new projects. Public investment is expected to continue increasing. All in all, the forecast for total investment for the whole forecast period has been adjusted slightly upwards in relation to the February forecast.

■ ■ Household consumption stable

Consumption has not fallen as far as exports and investment over the past year. This is linked to the financial crisis mainly having affected the Swedish economy through falling demand from abroad. It is also a normal pattern for households to attempt to spread their consumption evenly over time. Although household consumption was weaker than expected in the fourth quarter of last year, according to the Economic Tendency Survey households have become increasingly optimistic both with regard to their own finances and to the Swedish economy. An earlier turnaround in the labour market is also expected to lead to households' disposable incomes increasing more quickly in the future. The increased optimism, combined with the fact that household saving is at a high level to begin with, contribute to the expectation that consumption will rise during the forecast period. On average, household consumption is expected to grow by just over 2 per cent a year during the forecast period.

Lending to households is expected to continue to increase. At the same time, the percentage of mortgages with variable interest rates has shown an increase trend since the end of the 1990s. This means that the monetary policy transmission mechanism strengthens, that is, an interest rate increase of a given size will have a larger effect on the economy. This means both that the historically-low interest rate has so far had a greater impact than before and that the impact of future interest rate increases will be greater. However, the effect that monetary policy has on the economy is also dependent on many other factors.

■ ■ Upturn in employment has begun

The downturn in employment slowed down at the end of 2009 and both the outcome from recent months and indicators are increasingly pointing to a recovery in the labour market. Employment and the number of hours worked are increasing, at the same time as unemployment has ceased rising. This is surprisingly early, given the large fall in GDP. The assessment of the effects of the economic downturn on the labour market has therefore been revised once again. During the crisis companies have chosen to retain staff to a greater extent than might be expected from historical correlations. Moreover, they now appear to have begun to recruit new staff. The fact that the adjustment in the number of hours worked has not correlated to the fall in production means that productivity has been very weak. Periods of low productivity are normally followed by periods when productivity recovers quickly. The assessment is that productivity growth will be relatively rapid over the coming years, which also means that the number of hours worked and the number of persons employed will grow at a moderate rate.

The main effect of the international crisis on the Swedish economy has been a large fall in exports. This has led to rapid cutbacks in production and employment in industry. The services sector, on the other hand, has coped relatively well during the crisis. This division in the labour market is expected to remain over the coming years, as the growth in employment is primarily in the services sector. Resource utilisation in the manufacturing industry is assessed to be so low that one can increase production significantly before a need for new recruitment arises.

The labour supply has also been surprisingly high during the crisis. Despite falling employment, the number of persons in the labour force increased slightly in 2009. Various economic policy measures in recent years should have increased the incentive to remain in the labour force, such as tax deductions for the employed and changes in regulations and remuneration levels for sickness and unemployment benefits. Unemployment is expected to be around 9 per cent of the labour force during the first half of 2010 and then to slowly fall again. At the end of the forecast period unemployment is expected to be just over 8 per cent, which is 0.7 percentage points lower than the forecast in the February Monetary Policy Report.

■ ■ Resource utilisation still lower than normal

Monetary policy aims to hold inflation close to the inflation target of 2 per cent, at the same time as attaching importance to stabilising the real economy. The Riksbank uses a number of different indicators and statistical methods to assess how resource utilisation will develop over the next few years. As resource utilisation is not directly measurable, assessments are very uncertain, both with regard to the current situation and developments further ahead. The fall in GDP was larger than expected last year, which could indicate that resource utilisation is now lower than was expected in the February Report. At the same time, the labour market has developed more strongly, with a higher employment rate and lower percentage of unemployed than expected, which points to a higher level of resource utilisation in the labour market.

The National Institute of Economic Research's Business Tendency Survey shows that the percentage of companies experiencing a labour shortage has risen slightly in most sectors. Capacity utilisation in the manufacturing industry has also increased somewhat from its all-time low, although it is still at a low level. The overall picture of resource utilisation given by surveys and labour market data shows that resource utilisation is currently low, but that it has risen in recent quarters.

The Riksbank's assessment is that the long-term levels of production and employment have been negatively affected by the global financial crisis and by the economic downturn. This is linked, for instance, to the fact that investments will decline and labour will be excluded from the labour market. A lower long-term production level means that the fall in resource utilisation will not be as large as the decline in production would otherwise indicate. These assessments are of course very uncertain. The forecasts for the labour market have been revised upwards, compared with February, but the overall picture is still that resource utilisation will be lower than normal for most of the forecast period.

■ ■ Stronger public finances

General government net lending has been positive since 2004, but during 2009 it weakened substantially, compared with the previous year. However, the weakening was less than expected. General government net lending is expected to fall to a lowest point of -1.2 per cent of GDP in

2010. After that it is expected to rise to around 1 per cent of GDP as employment increases. The forecast has been adjusted upwards slightly since February as a result of the better prospects for the labour market. Moreover, government net lending will be permanently strengthened by earlier reforms in the social insurance system.

■ ■ Manufacturing sector agreements point to historically-low wage increases

The current wage bargaining rounds are taking place in a situation with high unemployment at the same time as corporate profits are low, and productivity has been exceptionally weak for a long period of time. Central wage agreements have now been signed for large areas of the manufacturing industry. These agreements are low in relation to the outcomes of the previous wage bargaining rounds and a large part of the wage increases comes towards the end of the period covered by the agreements. Despite less coordination on the employee side, the normative role of manufacturing industry wages is expected to also have had a major impact in these wage bargaining rounds. The central wage agreements for areas other than the manufacturing industry have to a great extent followed this norm. However, it is still too early to say how the decline in coordination will affect wage formation in the future. According to the short-term wage statistics, wages are expected to increase by on average around 2.5 per cent a year during the period 2010-2012. This assessment is in line with the social partners' expectations of future wage increases, according to Prospera's survey in March. Compared with the previous Inflation Report, the forecast for wages remains largely unchanged.

■ ■ Low CPIF inflation in coming years

A stronger exchange rate, faster growth in productivity and moderate wage increases are expected to contribute to inflationary pressures being relatively low in coming years. However, CPI inflation is expected to rise rapidly. This is because households' interest expenditure will rise as the repo rate is increased. CPI inflation is expected to be around 3 per cent at the end of the forecast period.¹

CPIF inflation, which is not directly affected by changes in households' mortgage rates, is currently relatively high, at 2.5 per cent. However, the recent upturn is assessed as temporary and cost pressures appear to be declining. As the krona strengthens, import prices will increase at a slower rate at the same time as productivity is expected to recover. This means that companies will be able to increase production at a low cost. In 2010 the CPIF is expected to fall back to a lowest level of around 1 per cent, and then to rise and to be almost 2 per cent at the end of 2012.

Compared with the Monetary Policy Report published in February, the forecast for CPIF inflation in 2010 has been revised upwards somewhat as a result of higher energy prices. The forecast for inflation in 2011 has been revised down slightly. Weaker productivity growth compared with the previous assessment is counteracted by a stronger exchange rate. Seen across the entire forecast period, underlying inflation is largely unchanged compared with the assessment made in February.

¹ The weighting figures for households' mortgage rates have changed substantially in 2010, which will hold down the CPI in 2010 compared with the forecast in the February Monetary Policy Report. Moreover, the Riksbank has changed the forecasting method for the effect of mortgage rates on the CPI to better reflect changed weighting figures in the future. This has on the whole meant that the forecast for the CPI has also been lowered for 2011-2012.

■ ■ Normalisation of the repo rate will begin in summer or early autumn

The forecasts in this Update are based on the repo rate being held unchanged at 0.25 per cent until the summer or early autumn. After that the repo rate will be gradually raised to more normal levels to hold inflation in line with the target of 2 per cent. The forecast for the repo rate is unchanged in relation to the February Monetary Policy Report.

The economic prospects for Sweden and abroad are roughly the same as in the forecasts published in the February Report. Despite unexpectedly weak GDP growth at the end of last year, the assessment remains that the Swedish economy is recovering. One important sign of this is that developments in the Swedish labour market have been stronger than expected. The upturn in employment has begun and unemployment has ceased rising.

During 2010 inflation is expected to fall again as a result of productivity recovering and the krona strengthening. Seen across the entire forecast period, inflation is largely unchanged compared with the assessment made in February. CPIF inflation is expected to be close to 2 per cent at the end of the forecast period.

The forecasts for GDP growth both abroad and in Sweden have been revised upwards substantially since the repo rate was cut to the record-low level of 0.25 per cent in July 2009. Unemployment has been much lower than feared, and is not now expected to rise further. At the same time, the krona has strengthened more than expected, which has motivated a downward revision in the forecasts for inflation up to the end of 2010, compared with July last year.

The monetary policy stance takes into account not only inflation, but also resource utilisation. The fall in GDP was larger than expected last year, which could indicate that resource utilisation is now lower than was expected in the February Report. At the same time, the labour market has developed more strongly, with a higher employment rate and lower percentage of unemployed than expected, which points to a higher level of resource utilisation in the labour market. The overall assessment is that resource utilisation is higher than was anticipated in February, but that it will still be lower than normal for most of the forecast period, despite the very expansionary monetary policy.

As the crisis has hit the export industry particularly hard, there has been a division of the economy. This division is also reflected in the fact that lending to companies has declined, at the same time as lending to households has increased at a rapid rate. Households' indebtedness in relation to income has thus risen to historically high levels. This division in the economy entails complications for monetary policy, as the situation is so different in different sectors of the economy, while monetary policy has a similar impact on all sectors.

The repo rate needs to remain low for inflation to attain the target of 2 per cent, and to support the recovery of the economy. This motivates holding the repo rate unchanged at 0.25 per cent. The Riksbank's assessment is that it is appropriate to begin normalising monetary policy during the second half of 2010. This entails beginning to raise the repo rate with effect from the summer or early autumn. It also entails the three fixed-interest rate loans granted in 2009 maturing at the end of June, end of August and beginning of October.

■ New information since the February Monetary Policy Report

International economic activity

- The large fall in world trade that took place in connection with the financial crisis has now partly been recouped. The main positive contribution has come through higher demand in Asia and Latin America. The total trade volume, measured in terms of the World trade monitor index, rose by around 5 per cent during the period November to the end of January, compared with the previous three-month period.
- According to revised statistics, GDP in the United States rose by 5.6 per cent calculated on an annual rate in the fourth quarter of last year. This was slightly less than was indicated by the earlier outcome. Contributory factors to the increase in GDP were lower destocking and a recovery in investment.
- US household consumption continued to rise in February. Consumption increased by 0.3 per cent compared with the previous month, at the same time as disposable incomes remained unchanged. Retail sales statistics point to continued growth in consumption in March.
- The situation in the US labour market has improved. Employment increased by 162,000 persons according to companies' pay-rolls in March. Unemployment remained at 9.7 per cent. Employment continues to increase in the services sector and it has also now shown an increase in the manufacturing industry. Moreover, the census for the decade has now begun, which contributed to an increase in the number of public sector employees. This will provide a temporary increase in employment up to the summer.
- The US housing market has been weak in recent months. Sales of new single-family dwellings fell by 2 per cent in February, after a decline of 9 per cent in January, compared with the previous month. Sales of existing homes fell by 1 per cent in February, after a decline of 7 per cent in January, compared with the previous month.
- According to revised statistics, GDP in the euro area remained unchanged during the fourth quarter of last year. This was slightly poorer than the first estimate and it was weaker than was forecast in the February Monetary Policy Report. France was the only one of the four largest euro countries to show positive growth in relation to the third quarter. GDP fell slightly in both Italy and Spain. In Germany, GDP remained unchanged compared with the third quarter.
- Following some stagnation earlier this year the improvement in the confidence indicators for the euro area appears to have returned in March. The aggregate purchasing managers' index rose to 55.9 in March, from 53.7 in the previous month. The sub-indices for both the manufacturing industry and the services sector rose clearly. Survey data up to the end of March also points towards increased optimism.
- In March unemployment in the euro area was 10 per cent, which indicates that the labour market in the euro area is stabilising sooner than expected. Inflation in the euro area was 1.4 per cent in March, after being around 1 per cent in the previous months.

The financial markets

- Market pricing and surveys of market agents point to expectations that policy rate increases by the Federal Reserve, the ECB and the Bank of England will come later than previously assumed. In Sweden, however, the expectations are that the first repo rate increase will come sooner than previously assumed. The Riksbank is expected to raise the repo rate in July or September this year, while expectations of the level of the repo rate at the end of the forecast horizon (the first quarter of 2013) have fallen to around 2.5 per cent.
- The problems with the poor government finances in some countries in Europe, including Greece, have led to higher funding costs for these countries. Capital investments in Sweden and Germany, on the other hand, have been perceived as safer by market participants, in relation to investment in countries with large government budget deficits. Swedish bond rates with longer durations have therefore fallen since the Monetary Policy Report was published in February. Moreover, expectations of a slower recovery in global economic activity have contributed to holding down bond rates in Europe.
- Since the Monetary Policy Report was published in February the Swedish krona has strengthened more than expected. The relatively strong Swedish public finances, compared to other countries, ought to have been a contributory factor to the strengthening of the krona. A larger expected policy rate differential towards other countries has probably also contributed to strengthening the krona. According to market pricing, the Riksbank is expected to raise the repo rate by around 1 percentage point over the coming 12 months, while the shortest market rates in the euro area are expected to rise by around half as much during the same period.

Economic activity in Sweden

- GDP in Sweden fell in the fourth quarter of 2009 by 2.2 per cent, calculated as an annual rate (seasonally-adjusted). Looking at the whole year 2009, GDP fell by 4.9 per cent, which is the largest fall in GDP in a single year in modern times. Compared with the Riksbank's forecast in February, the outcome for the fourth quarter was much weaker than expected. Most of the components of demand showed a relatively weak development during the fourth quarter. Companies continued to cut their stocks during the fourth quarter, but at a slower rate than in the third quarter, which provided a positive contribution to growth in demand. The number of hours worked declined by 2.5 per cent during the fourth quarter, which was a smaller fall than expected in February. Productivity thus rose nowhere near as much as expected.
- Survey data for the final three months of last year pointed to a relatively good growth in GDP during the quarter. However, the outcome showed that GDP actually fell. Information from surveys up to the end of March points to continuing high confidence both in the business sector and among households. Monthly outcomes for foreign trade in goods up to the end of February and new information on companies' planned investments also point to a recovery. And so do the outcomes up to the end of February for orders in the manufacturing industry. However, industrial production has continued to decline. During the most recent three-month period up to the end of February, industrial production fell by 1.7 per cent compared with the previous three-month period. Production of services, on the other hand, rose by 0.7 per cent during the period December to February, compared with the previous three-month period.

- Household consumption was weaker than expected during the fourth quarter of last year. Indicators point to growth in retail trade turnover being relatively low during the first quarter of this year. However, the number of new cars registered has increased strongly in the first quarter. According to the economic tendency survey, households have also become more optimistic with regard to both their own finances and the situation in the Swedish economy during the first quarter. In addition, households' disposable incomes increased relatively quickly in the fourth quarter of 2009, compared with the corresponding quarter in the previous year. The increased optimism, and the fact that household savings are high to begin with, contribute to the forecast that household consumption will increase, despite the weak development during the fourth quarter.
- Households' positive outlook on the future is also reflected in the housing market. According to Mäklarstatistik (estate agents' statistics), the prices of single-family dwellings and apartments rose on average by 10 per cent and 16 per cent respectively, calculated as an annual percentage change, during the three-month period up to the end of February. According to Statistics Sweden's housing survey, prices of single-family dwellings increased by 9 per cent as an annual percentage change during the first quarter of this year. At the same time, lending to households has continued to increase rapidly. During the three-month period up to the end of February the growth rate for household borrowing was just over 9 per cent, calculated as an annual percentage change.
- As expected, Swedish exports fell heavily in 2009 in connection with the global economic downturn. Investments in OECD countries declined substantially in connection with the crisis, which led to a sharp fall in Swedish exports of intermediate goods and investment goods. Trade abroad now appears to have picked up and orders for Swedish exports point to a positive development in all sectors, indicating that Swedish exports will begin to increase.
- Public sector consumption increased by 2.1 per cent last year, which was slightly weaker than the forecast in the February Monetary Policy Report. General government net lending corresponded to -0.8 per cent of GDP, which was slightly higher than the assessment. This was partly due to a slightly stronger growth than expected in tax incomes, such as payroll taxes and VAT income, as well as somewhat lower increases in expenditure, such as unemployment and sickness benefits.

The labour market

- During January and February the number of persons employed and the number of persons in the labour force showed stronger development than was forecast in the February Monetary Policy Report. At the same time, unemployment has stopped rising. In the past three months it has been around 9 per cent as a share of the labour force.
- Outcomes and indicators point to the labour market situation having stabilised and the recovery having begun earlier than was forecast in the Monetary Policy Report. The number of new job vacancies registered is rising and the number of redundancy notices is back at the same level as in spring 2008. According to the National Institute of Economic Research's Business Tendency Survey for March, companies are no longer expecting to cut staff.
- According to the short-term wage statistics from the National Mediation Office, preliminary monthly outcomes for wage increases in the economy as a whole up to the end of 2009 are

in line with the whole-year forecast of 3.4 per cent as an annual percentage change in the Monetary Policy Report. The rate of wage increase is expected to be around this level even during the first quarter of this year, as a large share of the three-year central wage agreements signed in 2007 apply until the end of March.

- According to the National Accounts, labour costs per hour throughout the economy rose by 1.2 per cent during the fourth quarter, when calculated as an annual percentage change, which was 0.4 percentage points lower than was forecast in February. Productivity measured as an annual percentage change rose during the fourth quarter, for the first time in almost three years, although it was still weaker than expected. The growth in unit labour costs has slowed down, and increased by 0.2 per cent when measured as an annual percentage change, which was nevertheless more than expected, compared with the assessment in February.

Inflation

- Households' inflation expectations one year ahead, as measured in the National Institute of Economic Research's Consumer Tendency Survey, amounted to 2.6 per cent in March. This is an increase from 2.3 per cent in February. Prospera's March survey also shows that inflation expectations among all agents have increased. Inflation expectations one year ahead are 1.3 per cent, compared with the survey in October 2009 when they were 0.8 per cent. Prospera's April survey shows that inflation expectations among money market agents for one year ahead are 1.7 per cent. Expectations are 2.3 per cent two years ahead, and at five years ahead they are 2.2 per cent.
- Since the Monetary Policy Report was published in February the outcome for CPI for the first three months of the year has been published. The annual percentage change in the CPI amounted to 1.2 per cent in March, which was 0.2 percentage points lower than expected in February. The forecasting error was mainly due to households' mortgage costs falling more than expected.
- The annual percentage change in the CPIF, where the interest rate is held constant, amounted to 2.5 per cent in March, which was 0.2 percentage points higher than expected in the February Monetary Policy Report. It was primarily energy prices that rose faster than anticipated. The rate of change in the CPIF excluding energy amounted to 1.9 per cent, which was in line with the forecast made in February.

■ Tables

The figures in parentheses show the forecast in the previous Monetary Policy Report.

Table 1. Repo rate forecast

Per cent, quarterly average values

	Q1 2010	Q2 2010	Q1 2011	Q1 2012	Q1 2013
Repo rate	0.25 (0.25)	0.25 (0.25)	1.1 (1.1)	2.8 (2.8)	4.0 (4.0)

Source: The Riksbank

Table 2. Inflation, annual average

Annual percentage change

	2009	2010	2011	2012
CPI	-0.3 (-0.3)	1.1 (1.6)	2.1 (2.9)	2.9 (3.1)
CPIF	1.9 (1.9)	2.0 (1.9)	1.3 (1.4)	1.8 (1.8)
CPIF excl. energy	2.3 (2.3)	1.6 (1.7)	1.4 (1.5)	1.8 (1.9)
HICP	1.9 (1.9)	2.0 (1.8)	1.1 (1.3)	1.6 (1.7)

Note. The CPIF is the CPI with a fixed mortgage rate. HICP is an EU harmonised index of consumer prices which does not include household mortgage.
Sources: Statistics Sweden and the Riksbank

Table 3. Summary of financial forecasts

Annual average, per cent, unless otherwise specified

	2009	2010	2011	2012
Repo rate	0.7 (0.7)	0.4 (0.4)	1.8 (1.8)	3.3 (3.3)
10-year rate	3.3 (3.3)	3.5 (3.6)	4.0 (4.1)	4.4 (4.6)
Exchange rate, TCW-index, 1992-11-18=100	140.2 (140.2)	128.9 (131.8)	126.0 (128.2)	126.4 (127.7)
General government net lending*	-0.8 (-1.5)	-1.2 (-1.5)	0.0 (-0.1)	1.0 (0.7)

* Per cent of GDP

Sources: Statistics Sweden and the Riksbank

Table 4. International conditions

Annual percentage change

GDP	2009	2010	2011	2012
Euro area	-4.0 (-3.9)	0.9 (1.2)	1.6 (1.6)	2.2 (2.2)
USA	-2.4 (-2.4)	3.2 (3.5)	3.0 (3.0)	2.8 (2.8)
Japan	-5.2 (-5.3)	1.9 (1.3)	2.0 (2.0)	1.8 (1.8)
OECD	-3.4 (-3.4)	2.3 (2.3)	2.6 (2.6)	2.7 (2.7)
TCW-weighted	-3.8 (-3.7)	1.3 (1.4)	2.0 (2.0)	2.2 (2.2)
World	-0.7 (-0.9)	4.0 (3.9)	4.2 (4.2)	4.2 (4.4)
CPI	2009	2010	2011	2012
Euro area (HICP)	0.3 (0.3)	1.2 (1.2)	1.3 (1.3)	1.7 (1.7)
USA	-0.3 (-0.3)	1.9 (2.3)	1.9 (2.0)	2.2 (2.2)
Japan	-1.4 (-1.3)	-1.0 (-0.9)	0.0 (0.0)	0.5 (0.5)
TCW-weighted	0.5 (0.5)	1.4 (1.3)	1.4 (1.4)	1.8 (1.8)
	2009	2010	2011	2012
Crude oil price, USD/barrel Brent	62 (62)	82 (77)	87 (82)	88 (85)
Swedish export market	-13.2 (-12.7)	5.0 (7.2)	7.9 (7.7)	8.2 (8.1)

Note. The Swedish export market index is calculated as a weighted average of the imports of the 15 countries which are the largest recipients of Swedish exports. They receive approximately 70 per cent of Swedish exports. The weight assigned to a country is its share of Swedish exports of goods.

Sources: Eurostat, IMF, Intercontinental Exchange, OECD and the Riksbank

Table 5. GDP by expenditure

Annual percentage change, unless otherwise specified

	2009	2010	2011	2012
Private consumption	-0.8 (-0.5)	2.2 (2.7)	2.4 (2.3)	2.0 (2.0)
Public consumption	2.1 (2.7)	1.0 (1.6)	0.6 (0.6)	0.6 (0.6)
Gross fixed capital formation	-15.3 (-13.9)	2.0 (1.5)	5.6 (5.2)	6.0 (5.9)
Inventory investment*	-1.5 (-1.7)	1.8 (1.1)	0.5 (0.5)	0.0 (0.0)
Exports	-12.5 (-12.4)	4.0 (6.2)	7.5 (7.1)	7.2 (7.3)
Imports	-13.4 (-13.1)	7.8 (8.8)	6.4 (6.4)	6.5 (6.5)
GDP	-4.9 (-4.5)	2.2 (2.5)	3.7 (3.4)	3.1 (3.1)
GDP, calendar-adjusted	-4.7 (-4.4)	1.8 (2.3)	3.7 (3.4)	3.5 (3.5)
Final figure for domestic demand*	-2.8 (-2.2)	1.7 (2.0)	2.3 (2.2)	2.2 (2.2)
Net exports*	-0.5 (-0.6)	-1.3 (-0.7)	0.9 (0.8)	0.8 (0.9)
Current account (NA), per cent of GDP	7.2 (7.2)	5.8 (6.3)	6.4 (6.6)	7.0 (7.1)

*Contribution to GDP growth, percentage points

Note. The figures show actual growth rates that have not been calendar-adjusted, unless otherwise stated. NA is the National Accounts.

Sources: Statistics Sweden and the Riksbank

Table 6. Production and employment

Annual percentage change, unless otherwise stated

	2009	2010	2011	2012
Population, aged 16–64	0.7 (0.7)	0.5 (0.5)	0.2 (0.2)	0.0 (0.0)
GDP, calendar-adjusted	-4.7 (-4.4)	1.8 (2.3)	3.7 (3.4)	3.5 (3.5)
Number of hours worked, calendar-adjusted	-2.6 (-2.5)	0.0 (-1.2)	0.6 (0.5)	0.8 (1.1)
Employed, aged 15–74	-2.0 (-2.0)	0.2 (-0.9)	0.3 (0.0)	0.5 (0.5)
Labour force, aged 15–74	0.2 (0.2)	0.9 (0.3)	0.0 (-0.1)	0.1 (0.2)
Unemployment, aged 15–74*	8.4 (8.4)	9.0 (9.4)	8.8 (9.4)	8.4 (9.1)

* Per cent of labour force

Sources: Employment Service, Statistics Sweden and the Riksbank

Table 7. Wages and unit labour cost for the economy as a whole

Annual percentage change, calendar-adjusted data

	2009	2010	2011	2012
Hourly wage, NMO	3.4 (3.4)	2.3 (2.4)	2.4 (2.4)	2.9 (2.8)
Hourly wage, NA	3.0 (2.8)	2.1 (2.3)	2.6 (2.6)	3.1 (3.1)
Employer's contribution*	-0.9 (-0.3)	-0.2 (-0.1)	0.1 (0.1)	0.1 (0.1)
Hourly labour cost, NA	2.1 (2.4)	1.9 (2.2)	2.6 (2.6)	3.2 (3.1)
Productivity	-2.2 (-1.9)	1.9 (3.5)	3.1 (2.9)	2.7 (2.4)
Unit labour cost	4.4 (4.4)	0.0 (-1.3)	-0.5 (-0.2)	0.5 (0.7)

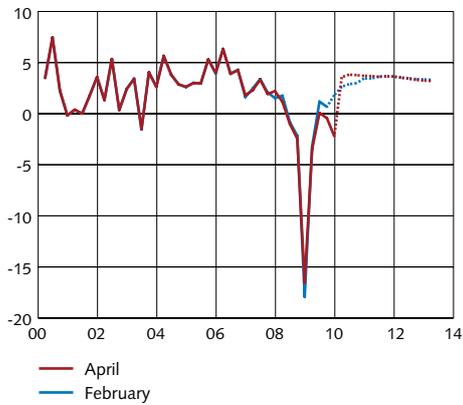
* Contribution to the increase in labour costs, percentage points.

Note. NMO is the National Mediation Office's short-term wage statistics and NA is the National Accounts. Labour cost per hour is defined as the sum of actual wages, collective charges and wage taxes divided by the seasonally adjusted total number of hours worked. Unit labour cost is defined as labour cost divided by seasonally adjusted value added at constant prices.

Sources: National Mediation Office, Statistics Sweden and the Riksbank

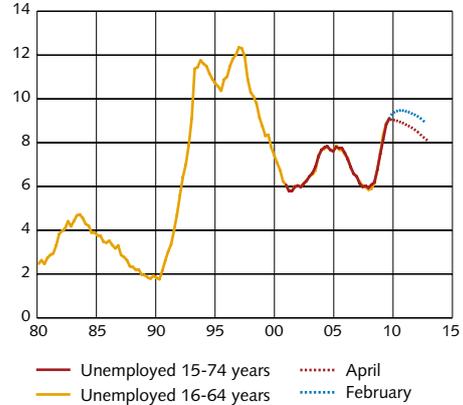
Figures

Figure 5. GDP
Quarterly changes in per cent calculated in annualised terms, seasonally-adjusted data



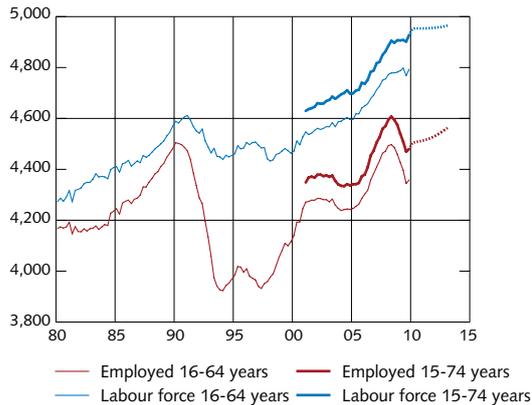
Note. Broken lines represent the Riksbank's forecast.
Sources: Statistics Sweden and the Riksbank

Figure 6. Unemployment
Percentage of the labour force, seasonally-adjusted data



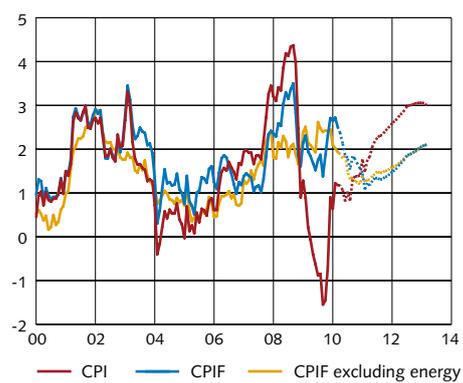
Note. Pre-1993 data has been spliced by the Riksbank.
Broken lines represent the Riksbank's forecast.
Sources: Statistics Sweden and the Riksbank

Figure 7. Labour force and number of employed
Thousands, seasonally-adjusted data



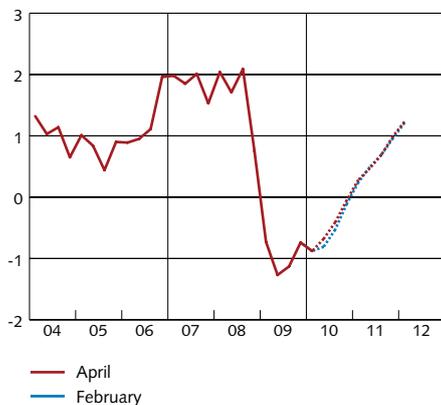
Note. Pre-1993 data has been spliced by the Riksbank.
Broken lines represent the Riksbank's forecast, 15-74 year.
Sources: Statistics Sweden and the Riksbank

Figure 8. CPI, CPIF and CPIF excluding energy
Annual percentage change



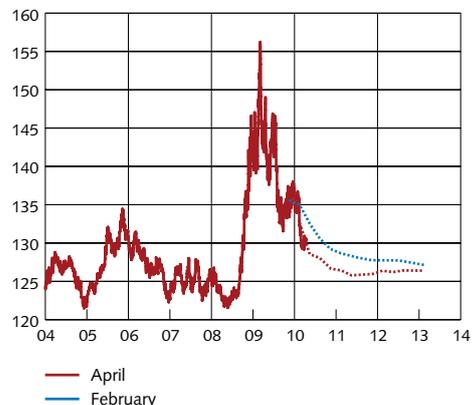
Note. CPIF is CPI with fixed interest rate. Broken lines represent the Riksbank's forecast.
Sources: Statistics Sweden and the Riksbank

Figure 9. Real repo rate
Per cent, quarterly averages



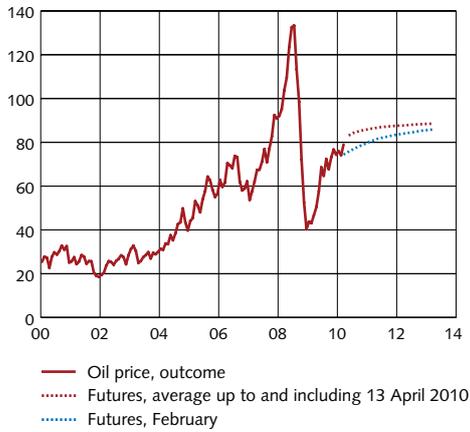
Note. The real repo rate is calculated as an average of the Riksbank's repo rate forecasts for the coming year minus the inflation forecast (CPIF) for the corresponding period. Broken lines represent the Riksbank's forecast.
Source: The Riksbank

Figure 10. TCW-weighted exchange rate
Index, 18.11.92 = 100



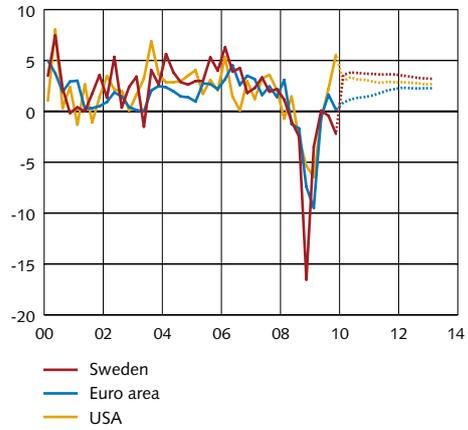
Note. Outcome data are daily rates up to 13th of April 2010 and the forecasts are quarterly averages. Broken lines represent the Riksbank's forecast.
Source: The Riksbank

Figure 11. Oil price, Brent crude
USD per barrel



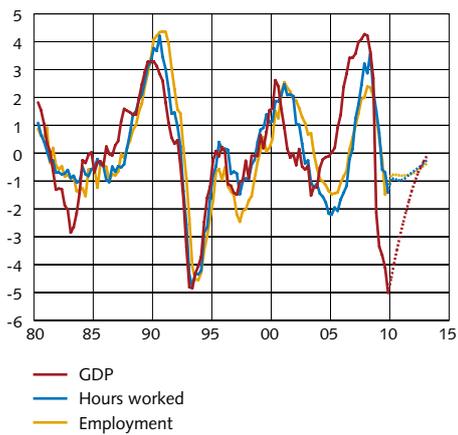
Note. Futures are calculated as a 15-day average. Outcomes represent monthly averages of spot prices.
Sources: Intercontinental Exchange and the Riksbank

Figure 12. Development of GDP in different regions and countries
Quarterly changes in per cent calculated in annualised terms, seasonally adjusted data



Note. Broken lines represent the Riksbank's forecast.
Sources: Bureau of Economic Analysis, Eurostat, Statistics Sweden and the Riksbank

Figure 13. Estimated gaps
Percentage deviation from the HP trend



Note. These gaps should not necessarily be interpreted as the Riksbank's overall assessment of resource utilisation. Broken lines represent the Riksbank's forecast.
Sources: Statistics Sweden and the Riksbank