

ANALYSIS – Consumption is expected to increase at a good pace going forward

Consumption has been weak in recent years and was at the same level in the third quarter of this year as in the second quarter of 2022.

Consumption has thereby hardly grown at all in three years, which has not happened in Sweden since the crisis of the 1990s. The weak development has raised the question of whether the slow recovery can be explained by more cautious households, and whether it risks being further delayed. The Riksbank's analysis shows that it is probably mainly a weak development in incomes in the wake of the global inflation crisis that explains the development. Consumption is therefore expected to grow more quickly going forward when real incomes strengthen.

Rising inflation in 2021 and 2022 has weighed on consumption

The weak consumption of recent years has followed a strong rise in inflation in 2021 and 2022, which was mainly driven by global factors such as higher energy and food prices.²⁶ To combat the higher inflation, monetary policy was tightened in Sweden and other countries and demand became tangibly lower. However, the impact of the higher inflation on real wage growth and the way the tighter policy has affected room for consumption varies from country to country. Consumption in Sweden has fallen more and the recovery has been slower than in the United States and euro area, but it has been more like the development in our neighbouring countries, where households are also more interest-rate sensitive.²⁷

One way of analysing how a global inflation shock affects for example interest rates, house prices, disposable incomes, consumption is to use what is known as a structural VAR model. Figure 30 shows how consumption according to the model has deviated from its trend since the third quarter of 2021 and how external shocks and domestic shocks respectively have contributed to this.²⁸ In the model, the global upturn in inflation leads to a tightening of monetary policy abroad and in Sweden. In Sweden, the negative effects on consumption are reinforced by real wage growth being slower than expected given international developments. In particular, consumption of durable goods decreases as this reacts strongly to rising interest rates and subdued

²⁶ See M. Löf and P. Stockhammar (2024), "What drove the surge in inflation?", *Staff memo*, June 2024, Sveriges Riksbank.

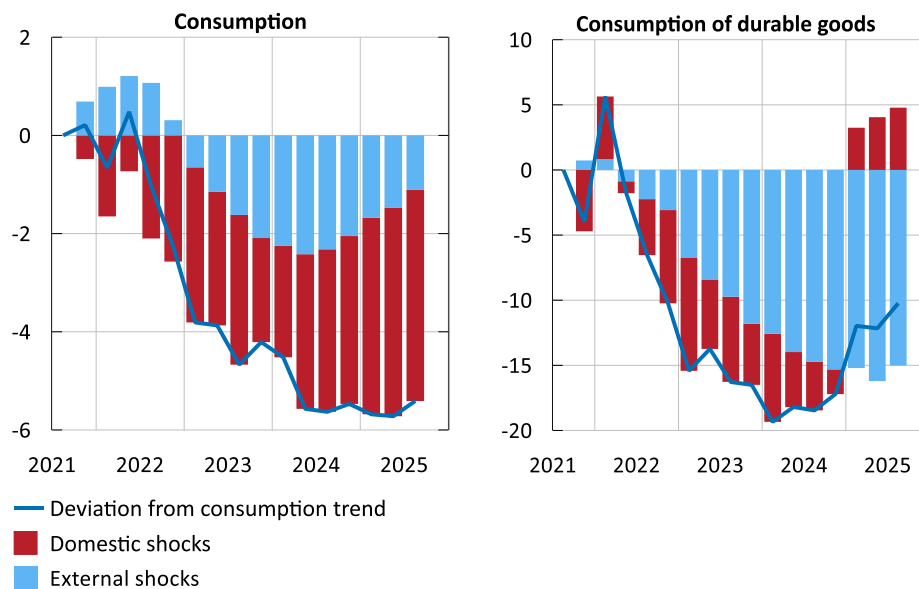
²⁷ See article by National Institute of Economic Research "Svensk konsumtionsutveckling sticker inte ut jämfört med liknande länder" (Swedish consumption growth does not stand out compared with similar countries), September 2025.

²⁸ This uses a Bayesian VAR model with three external variables (GDP, inflation and policy rate) and eight domestic variables (CPIF inflation, consumption of durable goods, consumption, disposable income, GDP, house prices, policy rate and real exchange rate). Sweden is assumed not to affect the rest of the world, meaning that external variables can be treated as block exogenous in a recursive decomposition that allows us to identify to which extent shocks can be attributed as external or domestic. The model estimate has been calculated at a quarterly frequency with four lags from 1995 Q1 to 2025 Q3.

incomes and wealth.²⁹ The figure shows that consumption is still being restrained by the shocks. As these now fade, consumption is expected to increase rapidly for a period of time.

Figure 30. Contribution to deviation from consumption trend

Percentage points



Note. The line show deviations from the model's-estimated trend since the third quarter of 2021 and the bars show the contribution made by domestic and external shocks respectively. The model is estimated using data from the first quarter of 1995 onwards.

Sources: Statistics Sweden and the Riksbank.

Consumption is determined by household incomes and saving

Consumption theory often assumes that households wish to smooth their consumption over time on the basis of their expected lifetime incomes and wealth. Temporary falls in income that are not thought to affect lifetime income to any great extent therefore lead, when possible, to lower saving rather than lower consumption. However, households without buffers or access to credit do not have the possibility to smooth their consumption which therefore declines in line with their incomes. In addition, households that normally have buffers may need to restore these to the desired level later on through a period of higher saving.

An unexpected fall in income can also make households more cautious by increasing their experienced uncertainty around future incomes, boosting in turn their propensity to save for a buffer, even in a longer term. The level of interest rates also affects how households allocate their incomes between consumption and saving. As the conditions differ much between households, their consumption and saving reactions will also vary. However, by studying how aggregate incomes and saving have

²⁹ For a comparison of how different components of consumption are affected by interest rate adjustments, see E. Berggren and I. Strid (2025) "How sensitive are different components of consumption to interest rates?" *Economic Commentaries No. 4*, Sveriges Riksbank.

developed makes it possible to obtain a picture of how households in total have adjusted their consumption and thus also gain an indication of how consumption may develop in the period ahead.

Weak income growth has dampened consumption

On the aggregate level, consumption usually develops in line with real disposable income and the Riksbank's forecast from the end of 2021 expects this pattern to continue (see Figure 31). A comparison of income growth in recent years with the Riksbank's forecast from the end of 2021, just before inflation started to pick up, shows how the components of household disposable income have developed compared with the forecast (see Figure 31).³⁰ Even though the nominal wage increase became higher than expected (light blue bars), they were significantly lower than the large price rises in the corresponding years (dark blue bars). Swedish households' relatively high borrowing and short interest-rate fixation periods have also made monetary policy particularly effective in restraining demand and room for consumption to combat inflation.^{31, 32} However, capital revenue has become significantly higher than the forecast, which has counteracted this to some extent.³³ All in all, however, real disposable incomes have fallen noticeably, which has led to a heavy reduction of room for consumption.

Households' financial saving has increased in recent years

The saving ratio, which was at a historically high level after the pandemic, decreased slightly in 2021, 2022 and the start of 2023 but has since risen somewhat (see Figure 31). There has also been a clear shift in its composition in which own financial saving, that is, saving in equities and funds or savings accounts, for example, has grown significantly, while real saving, largely consisting of housing investment, has fallen. This kind of shift could be a reaction to higher interest rates having contributed to housing investment becoming less attractive relative to other savings, at the same time as some households have wished to strengthen their financial situation. In the last quarter, however, own financial saving, and thus the saving ratio, has fallen slightly again.

Consumption is expected to continue to grow

When the global inflation shock reduced real disposable incomes, the saving ratio initially also fell slightly, which is in line with the theory that households seek to

³⁰ According to this forecast, disposable income is expected to grow in line with the earlier trend, GDP abroad and GDP in Sweden.

³¹ The potential effects of the higher interest rate on Swedish consumption were also analysed by the Riksbank when interest rates started to be raised; see, for example, *Monetary Policy Report*, September 2022, Sveriges Riksbank.

³² A Norwegian study shows that it is highly indebted households that are reducing their consumption the most, see M. Gulbrandsen et al. (2005) "Revisiting imputed consumption expenditure during the recent tightening cycle in Norway", *Staff Memo*, November, Norges Bank.

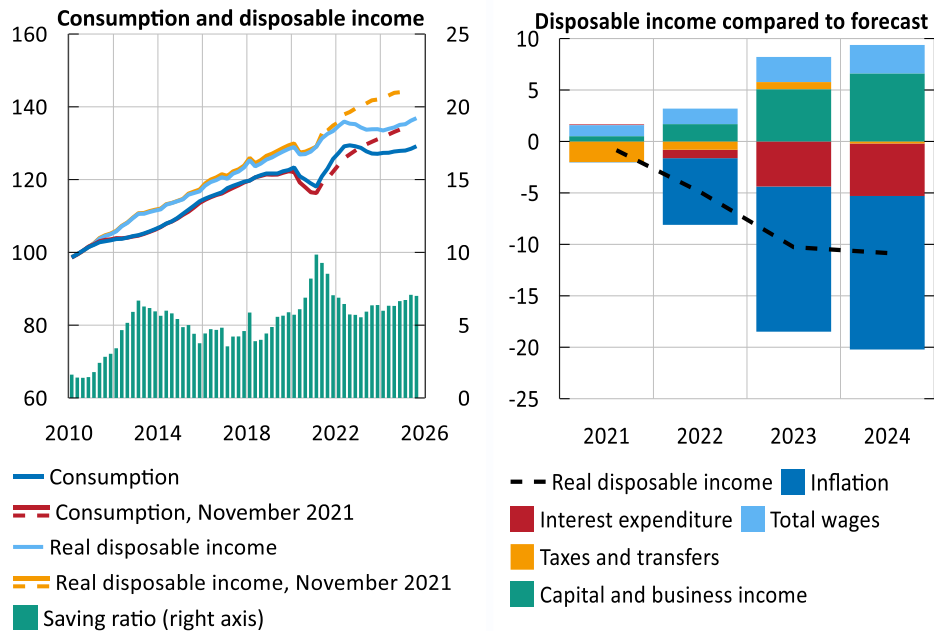
³³ A large part of capital revenues falls to a group that generally has high incomes and is often assumed to have a low marginal propensity to consume. However, studies show that this correlation does not always apply, see for instance E. Savoia (2023) "The effects of labor income risk heterogeneity on the marginal propensity to consume", *Working Paper* No 2866, ECB.

smooth their consumption. However, many households either had limited opportunities or preferred not to smooth more when their incomes fell. At the same time, the higher interest rates meant that saving became more attractive relative to consumption. This led consumption to fall heavily and in line with real disposable incomes. The fact that consumption strongly follows income growth can also be seen in the recovery, where the recent strong consumption growth has coincided with rising real wages and lower interest expenditures. In the model analysis too, consumption seems to increase as the effects of the shocks that cut household incomes abating. In addition, the findings of the Consumer Tendency Survey that households have started to take a more positive view of purchases of capital goods suggest that they are seeing less of a need to build up even larger buffers. This could imply that potential “scars” from the developments of recent years will not continue to weigh down consumption growth. There are, of course, differences between households, but overall the strengthening of households’ finances that we now see indicates that consumption in Sweden will develop relatively strongly going forward. Compared with many other countries, consumption is now growing strongly in Sweden and, in the Riksbank’s forecast for 2026, consumption rises by 3 per cent, which is the strongest growth since the pandemic restrictions were dropped in 2021.³⁴

³⁴ However, there are of course uncertainties linked to consumption growth; see the Uncertainty, risk and alternative scenarios in Chapter 3 of this report.

Figure 31. Consumption, disposable income and saving ratio, as well as development of disposable income compared with the forecast from November 2021

Index 2010 = 100 (left) and per cent (right)



Note. 12-month moving average. Red and yellow lines refer to outcome and the Riksbank's forecast respectively. Saving ratio refers to how much of disposable income is saved (left). The percentage difference in real disposable income together with the components' contribution in nominal terms compared with the forecast at the monetary policy meeting in November 2021 (right).

Sources: Statistics Sweden and the Riksbank.