

# The Swedish Economy

## August 2008

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**The NATIONAL INSTITUTE OF ECONOMIC RESEARCH (NIER)** prepares analyses and forecasts of the Swedish and international economy and conducts related research. The NIER is a government agency accountable to the Ministry of Finance and is funded largely by the Swedish government. Like other government agencies, the NIER has an independent status and is responsible for the assessments that it publishes.

**The Swedish Economy** contains analyses and forecasts of the Swedish and international economy. It is the English summary of the report in Swedish, **Konjunkturläget**. The **Statistical Appendix** (Analysunderlag) is a comprehensive set of tables with numerical data issued together with Konjunkturläget. The Statistical Appendix may be ordered as a printed report. It can also be downloaded from the NIER's home page; see [www.konj.se/konjunkturlaget](http://www.konj.se/konjunkturlaget).

There are also statistics in the form of outcome and forecast data for the development of the Swedish and international economy. See [www.konj.se/statistik](http://www.konj.se/statistik).

On the NIER's home page there is an overview of Sweden's economy in terms of various key numbers (inflation, resource utilization and employment, for example). This overview is entitled "The State of the Swedish Economy" and is updated once a month. See [www.konj.se/laget](http://www.konj.se/laget).

A list of terms for various economic concepts can be found on our home page, [www.konj.se/ordlista](http://www.konj.se/ordlista). The list explains difficult terms and defines how the NIER uses different concepts.

# Preface

The Swedish Economy, August 2008, presents an economic forecast for 2008–2010 covering the development of both the Swedish and international economies.

Three special analyses are also provided. In *Composition of Demand and Its Effect on Imports, Output, Hours Worked and Employment*, the effect of the composition of demand on employment is studied. *The NIER's Repo Rate Assessment* describes the development of the economy with different paths for the repo rate. Finally, the low growth of productivity in 2007 and the first half of 2008 is examined in *Negative Productivity Growth: Causes and Implications for the Period Ahead*.

In a special section, the new forecast is compared with the assessments published in June 2008.

The preparation of The Swedish Economy was led by Urban Hansson Brusewitz, Director of Forecasting. The calculations were completed on August 19, 2008.

Mats Dillén  
Director General



## Summary

**The Swedish economy is entering a contractionary phase, with a weaker tendency in exports as well as consumption and investment. Employment will decrease next year, particularly in manufacturing, and unemployment will increase. International economic recovery, reductions in Swedish interest rates and an expansionary fiscal policy will help the economy to start picking up again in 2010. The Riksbank will lower the repo rate to 3.75 percent in 2009 and to 3.50 percent in 2010.**

### CONTRACTIONARY ECONOMY IN THE OECD AREA

At present the OECD area is clearly in an economic downswing led by declining investment (see Diagram 1). The slump is particularly severe in housing investment in the United States and some European countries. Household consumption will also show lacklustre development in the period ahead, partly because of the recent surge in prices of energy and food and falling prices of houses and other assets. In both the US and the euro zone, consumer confidence has continued to drop rapidly this year. In many countries, further disturbances on financial markets have also contributed to tighter credit terms and high risk premiums in lending rates, thus tending to curb household consumption and investment by firms. For the OECD as a whole, GDP growth is forecast at 1.7 percent for this year as well as next year, the lowest growth rate since the economic slump of 2001–2002.

Incoming statistics and indicators for the euro zone during the summer have been weaker than expected, and growth in the euro zone is expected to be very low in the next few quarters. For the full year 2008, GDP growth will be 1.5 percent, and during the year the euro zone economy will enter a contractionary phase (see Diagram 2). Next year growth will slow further to about 1 percent owing to a weaker tendency in both exports and investment.

For some time the US economy has been in a contractionary phase, which will deepen this year and in the first half of 2009. With a lacklustre tendency in household consumption and a continuing downslide in housing investment, GDP will virtually stop increasing in the remaining months of 2008. GDP growth will be 1.5 percent this year and somewhat lower still next year; as a result, resource utilization will end up at about the same level in 2009 as in the previous contractionary period at the outset of the decade (see Diagram 3).

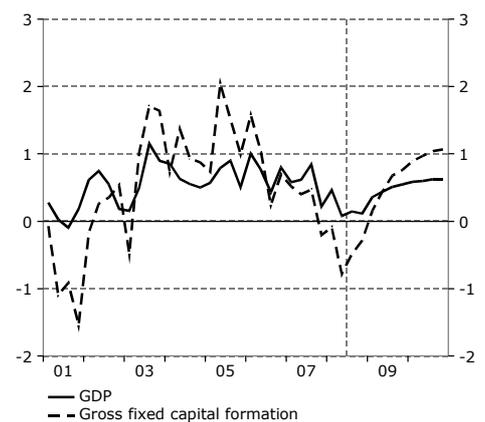
The surge in prices of oil and of other primary products in the last few years has been due largely to the rapid rise in global resource utilization in 2004–2007. During this period worldwide GDP growth was about 5 percent per year (see Diagram 2). In many countries outside the OECD area, growth by historical

### NEW SINCE THE PREVIOUS FORECAST

- Weaker growth in Europe.
- Lower GDP growth and resource utilization in Sweden in 2008 and 2009.
- Higher unemployment through 2010.
- Somewhat lower inflation and a lower repo rate in 2009 and 2010.
- Lower general government net lending during the forecast period.

**Diagram 1 GDP and Gross Fixed Capital Formation – OECD**

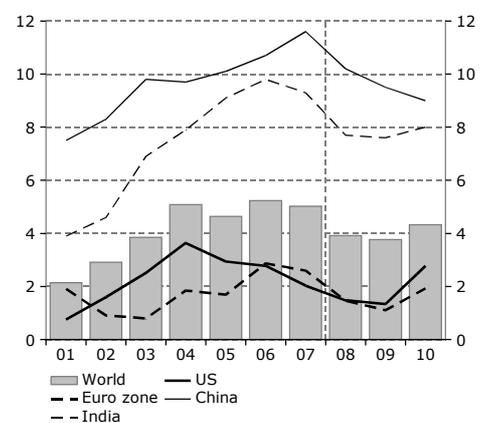
Percentage change, seasonally adjusted quarterly values



Sources: IMF, OECD, national sources and NIER.

**Diagram 2 GDP – Selected Countries**

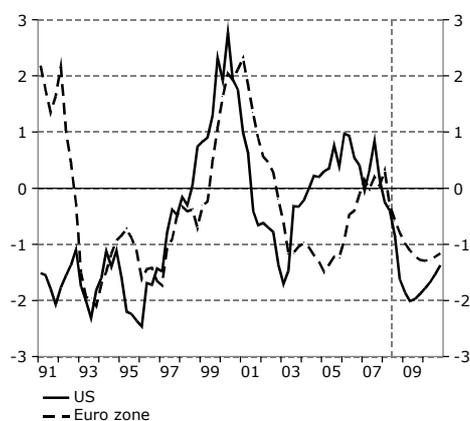
Annual percentage change



Sources: IMF, OECD, national sources and NIER.

**Diagram 3 Output Gap in US and Euro Zone**

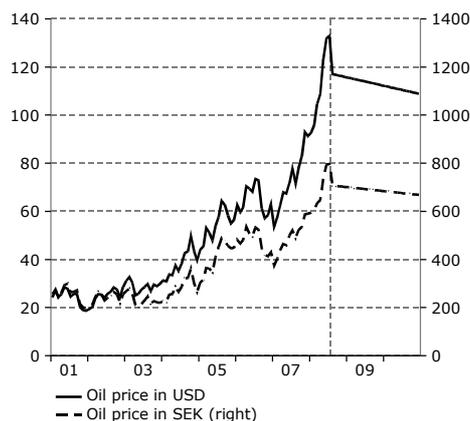
Percent of potential GDP, quarterly values



Sources: OECD and NIER.

**Diagram 4 Price of Oil**

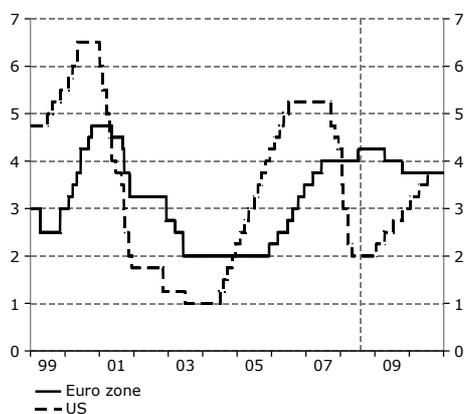
Brent USD/barrel and SEK/barrel, respectively, monthly values



Sources: Reuters EcoWin, International Petroleum Exchange and NIER.

**Diagram 5 Official Interest Rates**

Percent, daily values



Sources: National sources and NIER.

standards has been extremely high and primary-product intensive. This year and next year, the level of GDP growth will drop just below 4 percent. The world economy, however, will not weaken as much as in the previous global economic slump in 2001–2002, the reason being that growth outside the OECD area will remain high. However, the slowdown in the global economy will be sufficient to stabilize international prices of energy and other primary products. Reduced subsidies for motor fuel in many growth economies and the latest increase in output by OPEC countries will also help to stabilize oil prices. It is estimated that the price of oil will be approximately USD 110 in 2010 (see Diagram 4).

The international economy will gradually begin to pick up at the end of next year, provided the situation on financial markets has been normalized by then and that the surge in prices of energy and food has ceased. The upturn will come first in the US, where house prices will stop falling and investment will begin rising again early next year. The US economy will then enter an upturn in the second half of 2009, partly in response to an expansionary economic policy at that time.

Inflation in the OECD area will reach almost 4 percent this year, the highest since 1997. High inflation while resource utilization is decreasing has recently limited the manoeuvring room for monetary policy. In the period ahead, however, the monetary policy decisions of many central banks will be made easier as inflation in the OECD area gradually subsides because of low resource utilization and stabilized prices of oil and other primary products. This means, among other things, that the European Central Bank (ECB) will lower its policy interest rate (the refi rate) during 2009, from the current level of 4.25 percent to 3.75 percent in order to achieve an inflation rate just under 2.0 percent in 2010 (see Diagram 5). The lower policy interest rate will also help the euro zone economy gradually to pick up during 2010. In the US, the central bank (the Federal Reserve, or “Fed”) has followed a clearly expansionary monetary policy since the summer of 2007, and the policy interest rate (federal funds rate) has been 2.00 percent since April 2008. At the outset of next year, the Fed will start raising interest rates for a period as the anticipated economic upturn approaches. At the end of 2010 the federal funds rate is expected to be 3.75 percent.

With the economic upswing in 2010, GDP growth in the OECD area will rise above 2.5 percent, while inflation drops back to just over 2 percent.

#### LACKLUSTRE GROWTH FOR THE SWEDISH ECONOMY IN 2008–2009

Developments during the summer have reinforced the impression that Sweden is currently in an economic slowdown. Various indicators, including the NIER’s Economic Tendency Indicator, show that GDP has taken a much weaker course than normal

(see Diagram 6). The preliminary second-quarter data of Statistics Sweden and the outcome data for the first quarter reflect GDP growth close to zero. The information available suggests that GDP growth will remain low for the rest of the year and that Sweden's economy will enter a contractionary phase this year. Adjusted for inter-year differences in the number of working days, GDP will be up by 1.4 percent this year, half of last year's growth rate (see Diagram 7 and Table 1).

The economy is weakening on a broad front, with a softer tendency in both exports and domestic demand. The slump is due primarily to several shocks originating outside Sweden. First, the rapid economic downswing in the OECD area, which accounts for more than 80 percent of Swedish exports, is contributing to a weaker than normal tendency in Swedish exports. Second, the lacklustre growth of consumption in the last few quarters and the decline in consumer confidence are primarily consequences of two changes abroad: the financial crisis, which has contributed to falling share prices on the Stockholm Stock Exchange and to higher home-mortgage interest rates; and the rising international prices of energy and food, which have eroded household purchasing power and led the Riksbank to announce further increases in the repo rate.

The economic downswing will continue until the end of next year. In 2010 overall resource utilization in the economy will be rising (see Diagram 8) in response to an expansionary economic policy and the upturn in the international economy. The adjustment of inventories that limited the growth of output in 2008 and 2009 will cease in 2010, and all components of demand will show more vigorous development.

**Growth in exports** will fall off this year to 5 percent because of a softer tendency in exports of services in combination with prolonged weakness in exports of goods (see Diagram 9). With the continued lacklustre state of the world economy, growth in exports next year will be barely 4 percent; thus, exports will contribute even less to growth in output. With the strengthening international economy in 2010, growth in exports will rise to 6 percent, close to the average growth rate for exports in the last two decades.

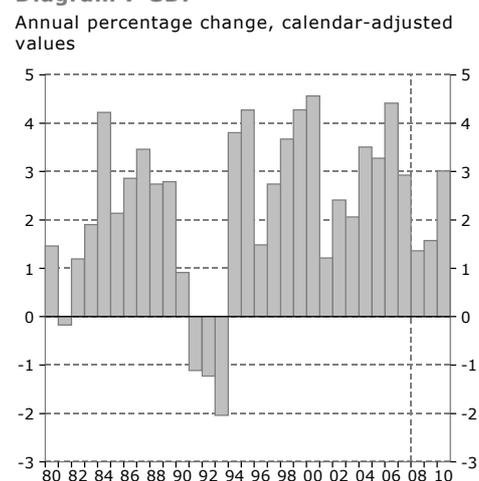
Consumer confidence has not been so low since the mid-1990's (see Diagram 10). The lack of consumer confidence suggests in itself that **household consumption** will show extremely weak or even negative growth in the immediate future. At the same time, though, retail sales have been rising somewhat more rapidly in recent months. Moreover, areas of service consumption that are customarily weak in the declining phase of the consumption cycle, such as tourism abroad, have been surprising buoyant. Consequently, despite extremely weak consumer confidence, household consumption is expected to continue increasing in the next few quarters -- cautiously, to be sure, for growth in household consumption will be only 1.6 percent this year. On the assumption of further cuts in income taxes, real disposable

**Diagram 6 Economic Tendency Indicator**



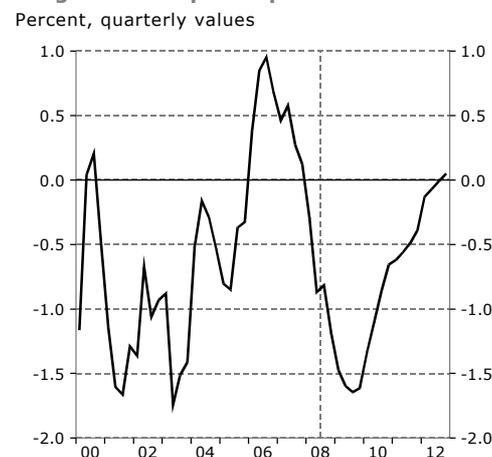
Source: NIER.

**Diagram 7 GDP**



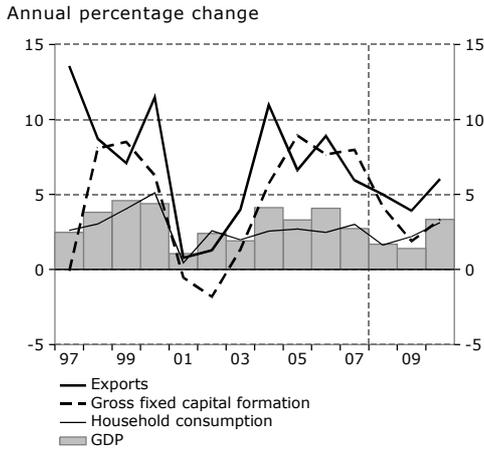
Sources: Statistics Sweden and NIER.

**Diagram 8 Output Gap**



Source: NIER.

**Diagram 9 GDP and Demand**



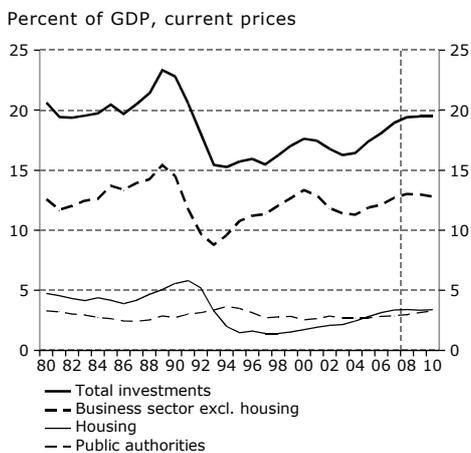
Sources: Statistics Sweden and NIER.

**Diagram 10 Consumer Confidence Indicator (CCI)**



Source: NIER.

**Diagram 11 Gross Fixed Capital Formation**



Sources: Statistics Sweden and NIER.

household income will show a relatively strong tendency in 2008-2010, increasing by more than 3 percent per year despite a weaker labour market. Household consumption will be up over 2 percent in 2009 and about 3 percent in 2010.

With fiscal policy expansionary in 2009 and 2010, it is assumed that more resources will be allocated to the general government sector, particularly local government. For this reason, **general government consumption expenditure** will increase in both 2009 and 2010.

When demand develops more slowly than planned on, capacity utilization decreases in manufacturing and service industries, lessening the need to expand production capacity. **Growth in business sector investment** excluding housing will therefore slow down this year and even more so next year. Housing investment will flatten out this year and decrease slightly next year after surging for last few years. It is assumed that to counter the slowdown in the growth of business sector investment, there will be a strong increase in infrastructure investment by public authorities during next two years as part of an expansionary fiscal policy. Overall, gross fixed capital formation will increase by about 4 percent in 2008, 2 percent in 2009 and 3 percent in 2010; the investment share will thus level out at approximately 19.5 percent of GDP (see Diagram 11).

All factors considered, the tendency will be slack in both exports and domestic demand next year, and calendar-adjusted GDP growth will be only 1.6 percent. With the upturn of the economy in 2010, calendar-adjusted GDP growth will rise to 3.0 percent. Actual GDP will increase by 1.7 percent in 2008, 1.4 percent in 2009 and 3.3 percent in 2010 (see Table 1).

**Table 1 Selected Indicators**

Annual percentage change and percent, respectively

	2006	2007	2008	2009	2010
GDP at market prices	4.1	2.7	1.7	1.4	3.3
GDP, calendar-adjusted	4.4	2.9	1.4	1.6	3.0
Real GNI per capita	5.2	3.2	0.1	0.7	2.7
Current account <sup>1</sup>	8.5	8.4	7.9	8.1	8.3
Number of hours worked <sup>2</sup>	2.0	3.5	1.7	-0.2	0.7
Employment	1.8	2.4	1.2	-0.2	0.4
Unemployment (ILO) <sup>3</sup>	7.1	6.2	5.9	6.5	6.7
Labour market gap	-1.7	0.3	0.6	-0.7	-1.1
Hourly earnings, business sector (STWS)	3.1	3.4	4.0	3.9	3.5
Cost of labour, business sector (NA) <sup>1</sup>	2.5	3.7	3.6	4.5	3.8
Productivity, business sector <sup>1</sup>	3.5	-0.5	-0.9	2.4	3.1
CPI	1.4	2.2	3.8	2.5	1.6
CPIF	1.4	1.5	3.0	2.4	1.9
CPIX	1.2	1.2	2.8	2.0	1.6
Repo rate <sup>4</sup>	3.00	4.00	4.50	3.75	3.50
Interest rate, 10-year government bonds <sup>4</sup>	3.6	4.3	4.4	4.4	4.6
Index for the Swedish krona (KIX) <sup>4</sup>	108.7	111.6	109.9	109.6	109.3
General government net lending <sup>5</sup>	2.2	3.5	2.6	0.9	0.7
Cyclically adjusted net lending <sup>6</sup>	2.0	2.8	2.7	1.7	1.3

<sup>1</sup> Percent of GDP. <sup>2</sup> Calendar-adjusted. <sup>3</sup> Including full-time students who have looked for work. Percent of labour force. <sup>4</sup> At year-end. <sup>5</sup> Percent of GDP.

<sup>6</sup> At year-end.

Sources: Statistics Sweden and NIER.

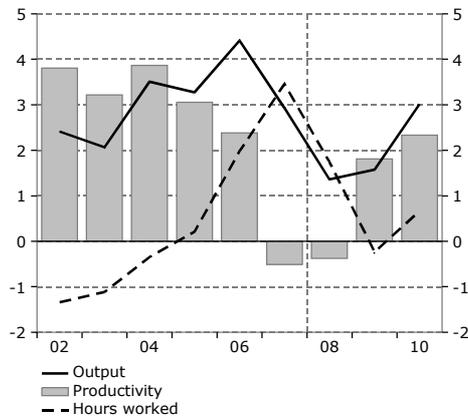
Developments in the next two years are difficult to forecast, and the elements of uncertainty appear to be concentrated on the downside. Economic recovery abroad can take more time than expected; this will result in a weaker tendency in exports, further undermining the confidence of firms and contributing to continued strong pessimism among Swedish households. If prices of primary products do not stop rising, policy interest rates could be higher and growth abroad lower than has been assumed in the forecast. There is also a risk that house prices will plummet further in the US and elsewhere, exacerbating and prolonging the financial crisis. In addition, there is a domestic risk that the growth of employment in recent years has been based -- to a greater extent than assumed in the forecast -- on overly positive expectations for the development of demand.

#### **UNEMPLOYMENT RISING UNTIL 2010**

Despite softening demand, the labour market tendency has been strong so far this year. Employment continued to increase during the first two quarters, and average hours worked per employee rose substantially in the second quarter. As business sector output has shown considerable weakness during this time,

**Diagram 12 Output, Productivity and Hours Worked**

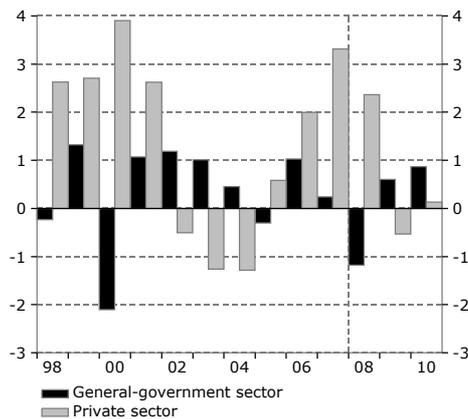
Annual percentage change, calendar-adjusted values



Sources: Statistics Sweden and NIER.

**Diagram 13 Number of Employed**

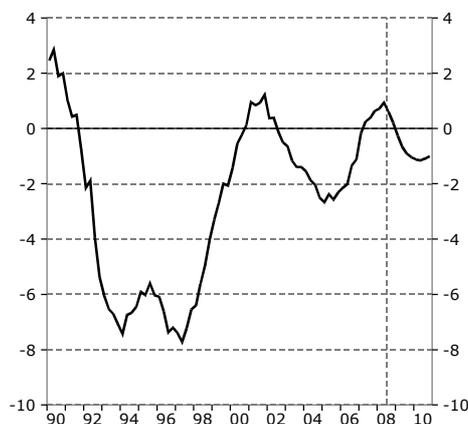
Annual percentage change



Sources: Statistics Sweden and NIER.

**Diagram 14 Labour Market Gap**

Percent of potential hours worked, seasonally adjusted quarterly values



Source: NIER.

last year's declining productivity trend has continued in the first half of this year. Consequently, the development of productivity for the economy as a whole will be slightly negative this year as well (see Diagram 12). The continued negative growth of productivity this year was unexpected and is probably due not only to cyclical factors. In light of the productivity tendency in 2007 and the first two quarters of 2008, the NIER has lowered its assessment of the long-term level of productivity. Much of the lacklustre development of productivity, however, is attributable to temporary factors; for example, firms have incorrectly estimated the development of demand, and the high level of capacity utilization last year led to numerous stoppages of production and other disturbances in operations. With the sizable increase in employment last year and large numbers with new employers, considerable training resources have been required; this has probably been another factor tending to reduce productivity.

The weak productivity tendency has sharply increased the costs of firms per unit of output and has curbed their profit margins. Firms are therefore under pressure to limit their personnel in order to improve productivity with existing employees or even with fewer of them. According to short-term indicators, employment will virtually stop increasing in the second half-year. Continued weak growth in output and the need to increase productivity growth will mean less employment in the business sector next year (see Diagram 13). Employment will be down primarily in manufacturing, while the growth of employment in service industries during the last few years will come to a halt. The decrease in employment will be countered to some degree by an expansionary fiscal policy that will contribute to higher employment partly through increased employment in the general government sector in 2009 and 2010. In the business sector, employment will be rising again in 2010 as the economy picks up.

The labour force is expected to continue increasing throughout the forecast period because of the demographic trend and the Government's policy of stimulating labour supply. However, the growth of the labour force will slow during the forecast period as fewer seek to enter a deteriorating labour market.

Unemployment will rise substantially during the forecast period, from 5.9 percent of the labour force this year to 6.7 percent in 2010.

The labour market gap, a measure of resource utilization on the labour market, indicates that resource utilization was somewhat strained during the first half of this year but that it will then fall rapidly until the middle of next year (see Diagram 14). At the end of the forecast period, resource utilization on the labour market will flatten out at a low level, though not so low as the last time that the economy was in a contractionary phase.

### RIKSBANK TO LOWER INTEREST RATES NEXT YEAR TO ACHIEVE INFLATION OF 2 PERCENT IN 2010

The wage and salary negotiations last year resulted in higher central settlements for 2007–2009 than for the previous contract period. This outcome was natural since negotiations were conducted during a phase of the economic cycle when the labour market was becoming somewhat strained. For 2008 and 2009, the centrally negotiated pay increases in the business sector are roughly 3 percent per year. Somewhat strained resource utilization on the labour market this year means that the year's wage increases in addition to the central settlements will be relatively high, with hourly earnings in the business sector increasing by an average of 4.0 percent. As resource utilization on the labour market slackens in the next few years, the bargaining position of employees will weaken as well since there will be fewer job openings in relation to the number of unemployed. Moreover, the 2010 round of pay negotiations will probably be held with expectations of somewhat low resource utilization on the labour market in the years immediately following 2010. Consequently, the rate of wage increases will gradually go down during the forecast period and is expected to be 3.9 percent in 2009 and 3.5 percent in 2010 (see Diagram 15).

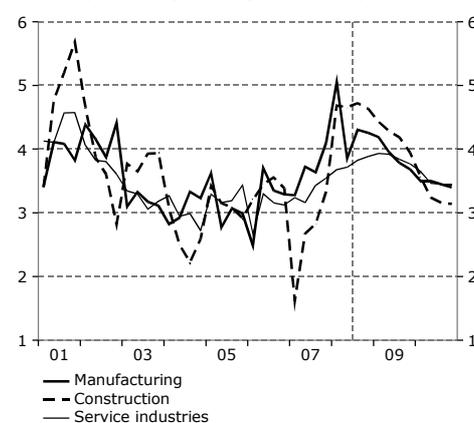
The relatively substantial increase of cost pressure in the business sector last year is continuing this year with the negative development of productivity. In 2009 and 2010 labour costs per unit of output will increase more slowly because of rising productivity growth and a lower rate of wage increases. Softer demand and relatively favourable business sector profitability at the outset will help to retard the impact of cost increases on prices. Profitability will thus weaken slightly in 2008 and 2009 in both manufacturing and service industries compared to last year.

Inflation has risen sharply in the past year. By the Riksbank's new measure of inflation, the CPI with a constant interest rate (CPIF), inflation has risen from about 1.2 percent annually one year ago to 3.4 percent in July of this year (see Diagram 16). CPI inflation, which includes the effect of changes in interest rate levels for homeowners, was 4.4 percent. The higher inflation rate is due primarily to rising prices of energy and food. Inflation excluding costs of interest, energy and food was only about 1 percent in July. The price increases in food and energy are expected to stop by year-end; thereafter, CPIF inflation will recede rapidly to around 2 percent in the summer of 2009. At the same time, underlying inflation excluding energy and food will have risen to roughly 2 percent, partly as a delayed effect of rapidly rising cost pressure in 2007 and 2008. Thereafter, CPIF inflation is expected to subside somewhat further, partly because of limited price increases in imported products.

In July of this year, the Riksbank raised the repo rate to 4.50 percent (see Diagram 17). In its monetary policy report for that month, the Riksbank presented its assessment that the repo rate

### Diagram 15 Hourly Earnings – Business Sector

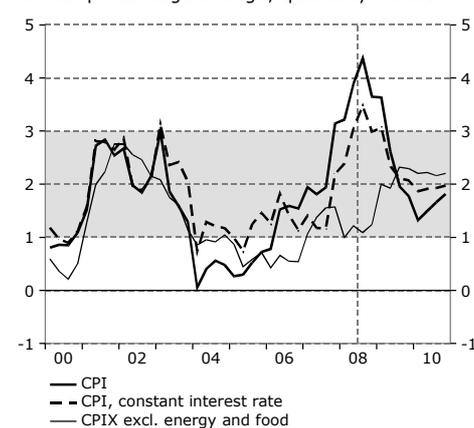
Annual percentage change, quarterly values



Sources: National Mediation Office and NIER.

### Diagram 16 Consumer Prices

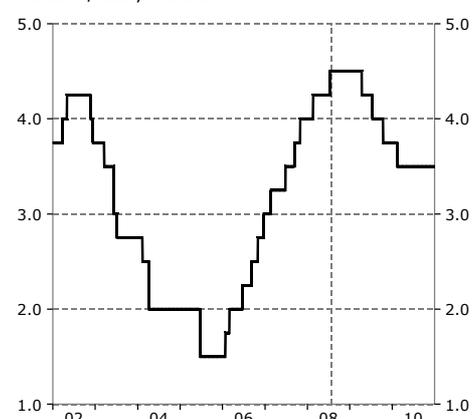
Annual percentage change, quarterly values



Sources: Statistics Sweden and NIER.

### Diagram 17 Repo Rate – Sweden

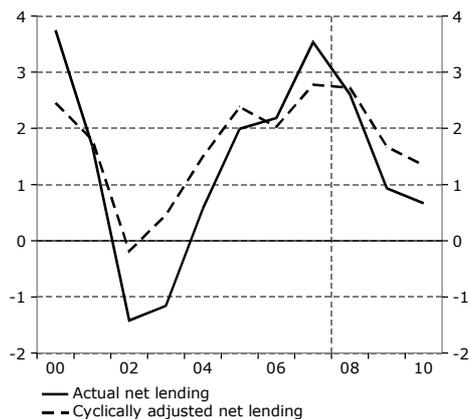
Percent, daily values



Sources: Reuters EcoWin and NIER.

**Diagram 18 Actual and Cyclically Adjusted Net Lending**

Percent of GDP and percent of potential GDP



Sources: Statistics Sweden and NIER.

would be raised two more times during 2008 and then slowly drop back. Since then, the price of oil has fallen, and GDP growth for the second quarter was weaker than anticipated. In addition, the inflation expectations of households one year ahead, as well as inflation expectations measured by so-called break-even inflation, were slightly lower in August. The NIER's analysis is that the Riksbank will leave the repo rate at 4.50 percent until some time after January 2009 when there is clear evidence that inflation has begun to go down. Thereafter, the repo rate will be lowered in three steps to 3.75 percent during 2009 and further to 3.50 percent in 2010. In combination with an expansionary fiscal policy and the upturn in the international economy, the lower repo rate will help to slow the decrease in resource utilization in 2009 and to bring CPIF inflation close to 2 percent in 2010. The NIER's calculations show that CPIF inflation would end up well below 2 percent in 2010 if the repo rate were raised to 4.75 percent this autumn and thereafter exceeded the forecast by as much as 0.50 percentage point in the period through 2010. There would then be a risk of further deepening and prolonging the contractionary economy. The NIER's calculations show that a reduction of the repo rate as early as 2008 is worth considering.

#### **GENERAL GOVERNMENT NET LENDING TO DROP BELOW 1 PERCENT OF GDP BUT STILL MEET THE SURPLUS TARGET**

The net lending of the general government sector will decrease rapidly in proportion to GDP in 2009-2010. This year, net lending will be 2.6 percent of GDP, roughly the same as last year when adjusted for cyclical effects (see Diagram 18). Over the next two years net lending will be down to 0.7 percent of GDP by 2010. The weakening will be due partly to lower tax revenue and higher expenditure in a softening economy, and partly to the expansionary fiscal policy expected in both 2009 and 2010. The expansionary fiscal policy in these two years will be warranted by rapidly decreasing resource utilization in 2009 and a continued low level of resource utilization in 2010 together with the high net lending in relation to the surplus target that would result with the tax and expenditure levels currently in effect. The forecast for general government finances is based on the assumption that the Swedish Parliament will enact new unfinanced decreases in revenue and increases in expenditure equivalent to about 1 percent of GDP in 2009 (about SEK 35 billion, excluding the previously announced reduction in social security contributions for young people effective January 1, 2009), and to roughly an additional 1 percent of GDP in 2010. The reforms will stimulate demand and thus have a positive impact on resource utilization. As a consequence of the reforms, GDP is expected to be more than 1 percent higher and employment about 0.5 percent higher in 2010 than would have been the case with the fiscal policy currently in effect. In this calculation, consideration has also

been given to the assessment that monetary policy will be somewhat less expansionary in 2009 and 2010 in view of the expansionary fiscal policy.

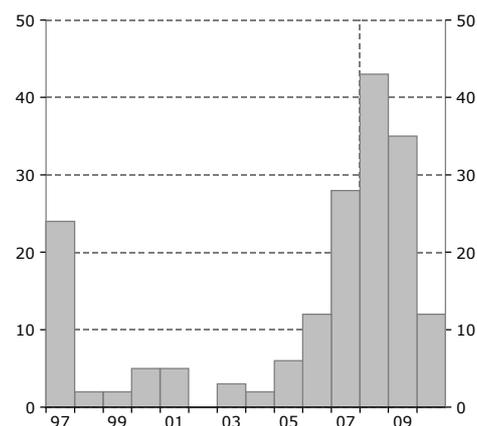
Despite the expansionary fiscal policy, cyclically adjusted net lending will end up above 1 percent of GDP in both 2009 and 2010, and the net financial assets of the general government sector will increase from 20 percent of GDP in 2007 to 26 percent of GDP in 2010.

General government finances will weaken through 2010 primarily in central government, where net lending will drop from 1.7 percent of GDP this year to 0.4 percent of GDP in 2010. The central government budget balance, however, will considerably exceed net lending in all years covered by the forecast because of revenue from completed and anticipated sales of shares held by the central government. There will also be some weakening in the net lending of the old-age pension system due to a larger number of old-age pensioners and relatively high indexation of pensions. The local government sector as a whole will meet the balanced budget requirement in all years of the forecast period. The expansionary fiscal policy is assumed to entail higher central government subsidies to municipalities and county council districts. These additional resources are expected to be just enough for county council districts to meet the balanced budget requirement while maintaining the level of ambition in their operations, despite factors like the increased demand for medical care during the forecast period to meet the needs of an aging population.

With a softening economy and the assumed reforms that will entail expenditure in 2009 and 2010, the margin up to the expenditure ceiling will decrease from over SEK 40 billion this year to just over SEK 10 billion in 2010 (see Diagram 19). Thus, the budgeting margin in 2010 will still exceed 1 percent of expenditure subject to the ceiling; this level is regarded as an appropriate minimum for coping with uncertainty in the development of expenditure during the year covered by the budget.

**Diagram 19 Central Government Budgeting Margin**

Billions of SEK



Sources: National Financial Management Authority and NIER.



# Appendix



**Table 2 GDP and the CPI in Other Countries**  
Annual percentage change

	GDP				CPI			
	2007	2008	2009	2010	2007	2008	2009	2010
United States	2.0	1.5	1.3	2.8	2.9	4.7	3.2	2.2
Canada	2.0	0.9	1.3	1.9	0.1	1.3	0.9	0.6
Japan	2.7	1.3	2.1	3.2	2.1	2.3	1.9	2.0
Denmark	1.7	0.5	1.2	1.3	1.7	3.1	2.4	2.2
Norway	3.7	2.8	2.1	2.2	0.7	3.3	2.6	2.3
Euro zone	2.6	1.5	1.1	1.9	2.1	3.6	2.5	1.9
Finland	4.3	2.5	2.1	2.5	1.6	3.7	2.5	2.1
Germany	2.6	1.6	1.0	2.0	2.3	3.0	2.2	1.8
France	1.9	1.3	1.2	1.9	1.6	3.4	2.3	1.8
Italy	1.6	0.4	0.5	1.3	2.0	3.6	2.4	1.8
United Kingdom	3.1	1.5	1.4	1.9	2.3	3.3	2.6	2.2
EU	2.8	1.6	1.3	2.1	2.3	3.8	2.7	2.2
OECD	2.7	1.7	1.7	2.6	2.5	3.9	2.8	2.1
India	9.3	7.7	7.6	8.0	6.3	7.8	6.3	5.0
China	11.6	10.2	9.5	9.0	4.8	6.7	4.5	4.0
Latin Amerika	6.2	5.0	4.3	4.1	6.1	6.1	6.5	6.3
World	5.0	3.9	3.8	4.3				

Note: The GDP figures are calendar adjusted. The CPI figures for the EU countries show the harmonized CPI or HICP.

Sources: IMF, OECD and NIER.

**Table 3 Interest Rates and Exchange Rates at the End of Each Year**

	2006	2007	2008	2009	2010
Policy interest rates					
Sweden	3.00	4.00	4.50	3.75	3.50
Euro zone	3.50	4.00	4.25	3.75	3.75
United States	5.25	4.25	2.00	3.00	3.75
Bond rates <sup>1</sup>					
Sweden	3.6	4.3	4.4	4.4	4.6
Euro Zone	3.8	4.3	4.4	4.5	4.7
United States	4.6	4.1	3.8	4.3	4.9
Exchange rates					
Krona/Euro	9.04	9.42	9.41	9.31	9.21
Krona/Dollar	6.84	6.47	6.06	6.10	6.14
Dollar/Euro	1.32	1.46	1.55	1.53	1.50
Yen/Dollar	117.1	112.1	107.5	107.3	107.0
Euro/Pund	1.49	1.39	1.27	1.29	1.30
TCW-index	123.2	125.8	123.1	122.5	121.8
KIX-index	108.7	111.6	109.9	109.6	109.3

<sup>1</sup> Interest rates on 10-year government bonds.

Sources: The Riksbank and NIER.

**Table 4 Supply and Demand****Billions of SEK, current prices, and percentage change, constant prices**

	2007	2007	2008	2009	2010
<b>GDP</b>	<b>3 071</b>	<b>2,7</b>	<b>1,7</b>	<b>1,4</b>	<b>3,3</b>
GDP, calendar adjusted		2,9	1,4	1,6	3,0
GDP incl. prel. xxx consumption <sup>1</sup>		2,7	1,7	1,4	3,0
Real GNI per capita		3,2	0,1	0,7	2,7
Household consumption expenditure	1 434	3,0	1,6	2,2	3,1
General government consumption expenditure	797	1,1	0,7	1,0	2,1
Gross fixed-capital formation	582	8,0	4,2	1,9	3,3
Stockbuilding <sup>2</sup>	24	0,7	-0,5	-0,6	0,3
Exports of goods and services	1 609	6,0	5,0	3,9	6,0
Imports of goods and services	1 375	9,7	4,7	3,9	6,2
Total domestic demand	2 836	4,2	1,3	1,2	3,2
Net exports	234	-1,1	0,5	0,3	0,4
Current account <sup>3</sup>	258	8,4	7,9	8,1	8,3

<sup>1</sup> Actual (not calendar-adjusted) GDP growth based on forecast of preliminary outcome for general government consumption. With the new method of measuring the development by volume of general government output of individual services, a method-dependent difference arises between preliminary and final outcomes for general government consumption. Thus, there is also a difference between preliminary and final outcomes for GDP. The NIER's forecasts of general government consumption refer to the final outcome. In evaluating forecasts, however, the NIER will proceed on the basis of an estimated preliminary outcome for general government consumption.

<sup>2</sup> Contribution to GDP growth. <sup>3</sup> In percent of GDP, current prices.

Sources: Statistics Sweden and NIER.

**Table 5 Household Income****Billions of SEK, current prices, and percentage change**

	2007	2007	2008	2009	2010
Total earnings	1 236	6.9	6.8	3.9	4.4
Hourly earnings according to National Accounts (NA) <sup>1</sup>		3.0	4.5	4.1	3.7
Hours worked <sup>1</sup>		3.7	2.2	-0.2	0.7
Other factor incomes	271	2.9	1.2	3.1	4.6
Transfers from the general government sector	481	-2.8	3.3	5.5	4.3
Transfers from the private sector	65	4.2	3.0	3.0	3.0
Taxes and contributions	-584	-0.6	2.0	0.8	3.4
Disposable income	1 468	5.7	6.4	5.4	4.7
Consumer prices <sup>2</sup>		1.3	2.9	2.1	1.7
<b>Real disposable income</b>		<b>4.3</b>	<b>3.4</b>	<b>3.2</b>	<b>3.0</b>

<sup>1</sup> Adjusted for inter-year differences in the number of working days.

<sup>2</sup> Implicit price index for household consumption expenditure.

Sources: Statistics Sweden and NIER.

**Table 6 Current Account, Net Lending**  
**Billions of SEK, current prices**

	2007	2008	2009	2010
Balance of trade	141	135	139	146
Balance of services	94	101	104	112
Wages and salaries, net	-2	-2	-2	-2
Return on capital, net	62	58	66	74
Transfers etc., net	-36	-38	-40	-42
<b>Current account</b>	<b>258</b>	<b>253</b>	<b>268</b>	<b>288</b>
<i>Percent of GDP</i>	8.4	7.9	8.1	8.3
Capital transfers	-3	-3	-3	-4
<b>Total net lending</b>	<b>255</b>	<b>250</b>	<b>265</b>	<b>285</b>
<i>Percent of GDP</i>	8.3	7.8	8.0	8.2
General government net lending	108	83	31	23
<i>Percent of GDP</i>	3.5	2.6	0.9	0.7
Household saving	83	113	138	143
<i>Percent of GDP</i>	2.7	3.5	4.2	4.1
Net lending of firms	64	54	96	118
<i>Percent of GDP</i>	2.1	1.7	2.9	3.4

Sources: Statistics Sweden and NIER.

**Table 7 Output****Billions of SEK, current prices and percentage change, constant prices**

	2007	2007	2008	2009	2010
	Calendar adjusted				
Goods industries	816	3.2	1.6	1.9	4.0
of which: Manufacturing	559	2.9	1.2	2.4	4.7
Construction	136	5.9	3.6	1.1	2.3
Service industries	1 304	4.2	2.2	1.7	3.2
of which: Trade	306	4.2	2.7	2.8	3.5
Business services	313	5.2	1.5	1.8	4.0
<i>Business sector</i>	2 120	3.8	2.0	1.8	3.5
Public authorities	540	0.8	-0.9	0.7	1.2
Total output (basic prices) <sup>1</sup>	2 698	3.1	1.4	1.6	3.0
Product taxes/subsidies	381	1.6	1.4	1.6	3.0
<b>GDP (market prices)<sup>1</sup></b>	<b>3 079</b>	<b>2.9</b>	<b>1.4</b>	<b>1.6</b>	<b>3.0</b>
	Not calendar adjusted				
Business sector	2 115	3.6	2.3	1.7	3.8
Public authorities	537	0.6	-0.5	0.4	1.8
<b>GDP (market prices)<sup>1</sup></b>	<b>3 071</b>	<b>2.7</b>	<b>1.7</b>	<b>1.4</b>	<b>3.3</b>

Note: The figures for GDP are calendar-adjusted, and the aggregate is calculated with the use of so-called Purchasing Power Parity (PPP) weights. The PPP weights for some countries, including China and India, have recently been adjusted downward by as much as 40 percent. Since these countries have been growing considerably faster than the global average for some time, and will continue to do so according to the forecast, an adjustment of this kind will lower the worldwide growth rate both in recent years and in forecasts for coming years. However, the assessment of market growth for Swedish exports is unaffected by these changes, as the weights used in that assessment are not adjusted for purchasing power.

<sup>1</sup> Including output of nonprofit institutions serving households.

Sources: Statistics Sweden and NIER.

**Table 8 Productivity**  
**SEK per hour and annual percentage change, constant prices**

	2007	2007	2008	2009	2010
Calendar adjusted					
Goods industries	392	0.0	-0.7	3.6	4.2
of which: Manufacturing	432	0.8	0.0	4.9	5.6
Construction	268	-0.1	-2.5	0.9	1.1
Service industries	425	-0.8	-1.1	1.7	2.4
of which: Trade	322	-0.3	0.5	2.6	3.0
Business services	426	-1.7	-3.2	1.9	2.9
<i>Business sector</i>	412	-0.5	-0.9	2.4	3.1
Public authorities	267	-1.0	0.2	-0.1	-0.2
<b>Total<sup>1</sup></b>	<b>368</b>	<b>-0.4</b>	<b>-0.4</b>	<b>1.8</b>	<b>2.3</b>
Not calendar adjusted					
Business sector	413	-0.4	-1.1	2.6	2.8
Public authorities	268	-0.9	0.1	0.0	-0.3
<b>Total<sup>1</sup></b>	<b>368</b>	<b>-0.2</b>	<b>-0.6</b>	<b>2.0</b>	<b>2.1</b>

<sup>1</sup>Including nonprofit institutions serving households.

Sources: Statistics Sweden and NIER.

**Table 8 Hours Worked**  
**Millions of hours and annual percentage change**

	2007	2007	2008	2009	2010
Calendar adjusted					
Goods industries	2 082	3.1	2.4	-1.6	-0.2
of which: Manufacturing	1 295	2.0	1.3	-2.4	-0.9
Construction	507	6.0	6.2	0.2	1.2
Service industries	3 069	5.0	3.3	0.0	0.8
of which: Trade	952	4.5	2.2	0.3	0.6
Business services	735	6.9	4.8	-0.1	1.1
<i>Business sector</i>	5 151	4.2	2.9	-0.6	0.4
Public authorities	2 020	1.9	-1.1	0.8	1.4
<b>Total<sup>1</sup></b>	<b>7 341</b>	<b>3.5</b>	<b>1.7</b>	<b>-0.2</b>	<b>0.7</b>
Not calendar adjusted					
Business sector	5 127	4.0	3.4	-0.9	0.9
Public authorities	2 006	1.5	-0.5	0.4	2.1
<b>Total<sup>1</sup></b>	<b>7 303</b>	<b>3.2</b>	<b>2.3</b>	<b>-0.6</b>	<b>1.2</b>

<sup>1</sup>Including hours worked at nonprofit institutions serving households.

Sources: Statistics Sweden and NIER.

**Table 9 Key Numbers for the Labour Market**

Level in thousands of persons and annual percentage change

	2007	2007	2008	2009	2010
Total output (basic prices) <sup>1</sup>	2 698	3.1	1.4	1.6	3.0
Productivity <sup>2</sup>	368	-0.4	-0.4	1.8	2.3
Hours worked <sup>3</sup>	7 341	3.5	1.7	-0.2	0.7
Average hours worked <sup>4</sup>	31.8	1.0	0.5	0.0	0.3
Number employed	4 445	2.4	1.2	-0.2	0.4
Labour force (ILO)	4 736	1.4	1.0	0.4	0.5
Unemployment <sup>5</sup> acc. to new def <sup>5</sup>	292	6.2	5.9	6.5	6.7
Unemployment <sup>5</sup> acc. to previous def.	216	4.6	4.3	4.7	4.8
Number participating in labour-market programmes <sup>5</sup>	88	1.9	1.8	1.9	2.0
Total employment rate <sup>8</sup>		79.4	80.2	79.9	80.0
Regular employment rate <sup>6</sup>		75.6	76.0	75.5	75.7
Population. aged 16–64	5 876	0.9	0.8	0.4	0.2

<sup>1</sup> Billions of SEK, calendar-adjusted. <sup>2</sup> SEK per hour, calendar-adjusted.<sup>3</sup> Millions of hours, calendar-adjusted. <sup>4</sup> Hours per week, calendar-adjusted.<sup>5</sup> Including full-time students who have looked for work, percent of labour force.<sup>6</sup> Excluding full-time students who have looked for work, percent of labour force.<sup>7</sup> Percent of labour force. <sup>8</sup> Proportion employed, percent of population aged 16–64.<sup>9</sup> Percentage of population aged 20–64, excl. participants in labour market employment programmes.

Sources: Statistics Sweden. National Employment Office and NIER.

**Table 10 Labour Costs and Earnings per Hour and per Unit of Output – Business Sector**

Annual percentage change. calendar adjusted

	2007	2007	2008	2009	2010
Hourly earnings (STWS)		3.4	4.0	3.9	3.5
Hourly earnings (NA)	189	3.2	4.2	4.1	3.7
Social security contributions (NA)	80	42.13	41.31	41.90	42.07
<b>Compensation of employees</b>	<b>268</b>	<b>3.7</b>	<b>3.6</b>	<b>4.5</b>	<b>3.8</b>
Productivity <sup>1</sup>		-0.9	-1.7	2.4	3.1
<b>Unit labour cost</b>		<b>4.7</b>	<b>5.4</b>	<b>2.1</b>	<b>0.7</b>
Unit labour cost excl. Pension premium rebate		3.8	6.0	1.3	0.7

Note: Employer contributions include social security contributions and payroll taxes. STWS stands for Short Term Wage and Salary Statistics and NA for National Accounts.

<sup>1</sup> The development of productivity in this table is based solely on hours worked by employees; thus, hours worked by business proprietors are not included.

Sources: Statistics Sweden. National Mediation Office and NIER.

**Table 11 Consumer Prices**  
Annual percentage change

	Weight in CPI	2008	2009	2009	2010 Dec
Goods	42.7	1.9	1.5	0.9	1.0
Services	26.5	2.0	1.5	2.2	2.2
Housing excl. Interest and energy	17.5	2.5	3.1	3.2	3.3
<i>KPIX excl. Energy</i>	86.6	2.0	1.8	1.8	1.9
Energy	8.9	10.7	3.0	-0.1	0.2
<b>KPIX</b>	<b>95.5</b>	<b>2.8</b>	<b>2.0</b>	<b>1.6</b>	<b>1.7</b>
Mortgage interest cost, House prices <sup>1, 2</sup>		0.1	0.2	0.2	0.1
Taxes and subsidies <sup>1</sup>		0.1	0.2	0.1	0.1
<b>CPI, Constant interest rate</b>	<b>100.0</b>	<b>3.0</b>	<b>2.4</b>	<b>1.9</b>	<b>1.9</b>
Mortgage interest cost, Interest rate <sup>1, 2</sup>		0.8	0.1	-0.3	-0.1
<b>CPI</b>	<b>100.0</b>	<b>3.8</b>	<b>2.5</b>	<b>1.6</b>	<b>1.8</b>
<b>HICP</b>		3.7	2.2	1.7	1.8

<sup>1</sup> Contribution to CPI inflation. <sup>2</sup> Mortgage interest cost has a weight of 4.5 percent and is made of the product of houseprices and the interest rate.

Note: All prices except in the CPI and HICP are calculated with the indirect effects of taxes and subsidies excluded.

Sources: Statistics Sweden and NIER.

**Table 12 Finances of the General Government Sector**  
Billions of SEK and percent of GDP

	2006	2007	2008	2009	2010
Revenue	1 560	1 645	1 680	1 703	1 772
<i>Percent of GDP</i>	53.8	53.6	52.6	51.4	50.8
Expenditure	1 496	1 536	1 597	1 672	1 749
<i>Percent of GDP</i>	51.6	50.0	50.0	50.5	50.1
Net lending	<b>63</b>	<b>108</b>	<b>83</b>	<b>31</b>	<b>23</b>
<i>Percent of GDP</i>	2.2	3.5	2.6	0.9	0.7

Sources: Statistics Sweden and NIER.

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