BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

WORLD ECONOMY OUT OF SYNC

GLOBAL ECONOMIC OUTLOOK
September 2024

WORLD ECONOMY STUMBLES FORWARD

The world economy is stumbling forward and failing to gain clear momentum, despite falling inflation and a downward revision of policy rates. Global growth is expected to remain at around 2.7 per cent per year until 2026. This is just below the average growth rate for the pre-pandemic years, 2015–2019. But there is significant variability between the regions. Europe is seeing signs of recovery despite the current standstill in the German economy. North America is slowing down and a soft landing is increasingly likely for the US economy. At the same time, growth in Asia is losing steam mainly due to developments in the region's largest economy, China.

The fact that the three growth engines – the US, Germany, and China – are in a relatively weak position with high public debt does not help. Although policy rates are coming down, the high debt means that the scope for deploying fiscal policy stimulus is limited. Besides this, the world economy is weighed down by geopolitical tensions and rising protectionism. This dampens expectations among businesses and households, and both investments and consumption are being held back.

But Sweden is a notable exception. The Swedish economy is overall well-prepared for the turnaround, despite some hesitation among households. A less tight monetary policy, combined with strong public finances and manoeuvrability for fiscal policy measures, as well as a stable labour market with disciplined parties, sets the right conditions for a speedy recovery. Domestic demand will overtake exports as the growth driver in the Swedish economy next year. Swedish exports have lost momentum but will recover as demand from key export markets returns.

In all, we can conclude that demand is rebounding – but it will a little longer than previously expected. This means that it's high time to identify opportunities and invest for the future.

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THE GLOBAL ECONOMY

Moderate growth in the world economy

Geopolitical uncertainty persists

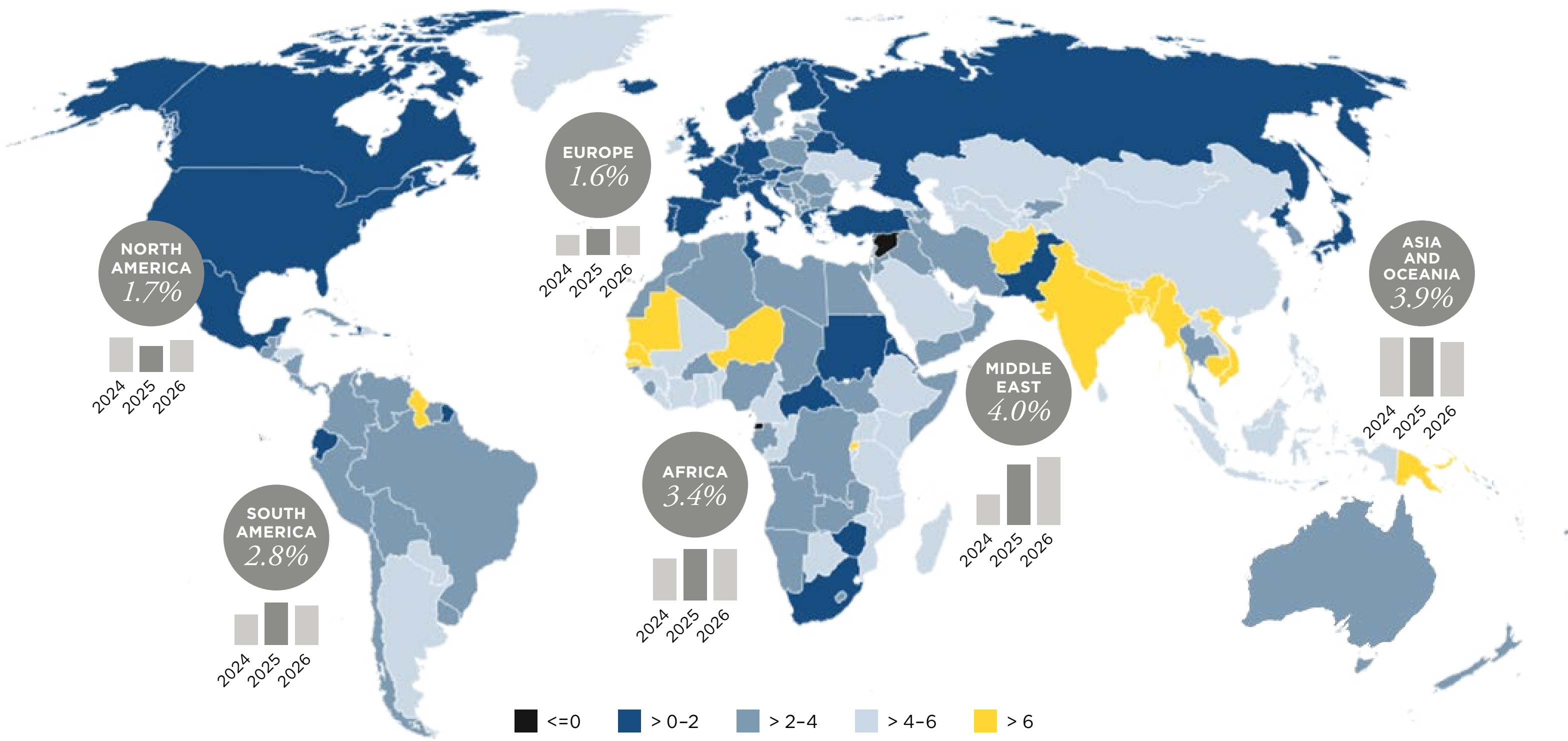
Interest rates are being lowered

After a period of setbacks and weak growth, the global economy is approaching a turnaround, but it will take time before consumption and investments pick up. A weak start to 2024, characterised by low growth and a worryingly strong reaction in global financial markets to relatively modest negative macroeconomic figures, is expected to see some improvement during the rest of the year. Although global growth is gaining momentum, it is not as strong as many had hoped.

Despite signs that global growth is picking up slightly in the second half of 2024, it is clear that we are heading towards a more fragmented development in the world economy. Moreover, the pre-conditions for improving growth will vary considerably in all economies – with some able to make significant investments and stimulate growth, while others face more profound structural problems and high public debt. This means that decision-makers will have to make careful considerations as they need to understand both the short-term and, above all, long-term economic consequences of their decisions.

A key reason why global growth is not picking up more speed is that several major economies in 2024 are still in a relatively weak position and unable to pursue neither fiscal nor monetary policy stimulus. We are undoubtedly moving away from the periods of high growth seen during the 2010s, when levels of productivity and growth

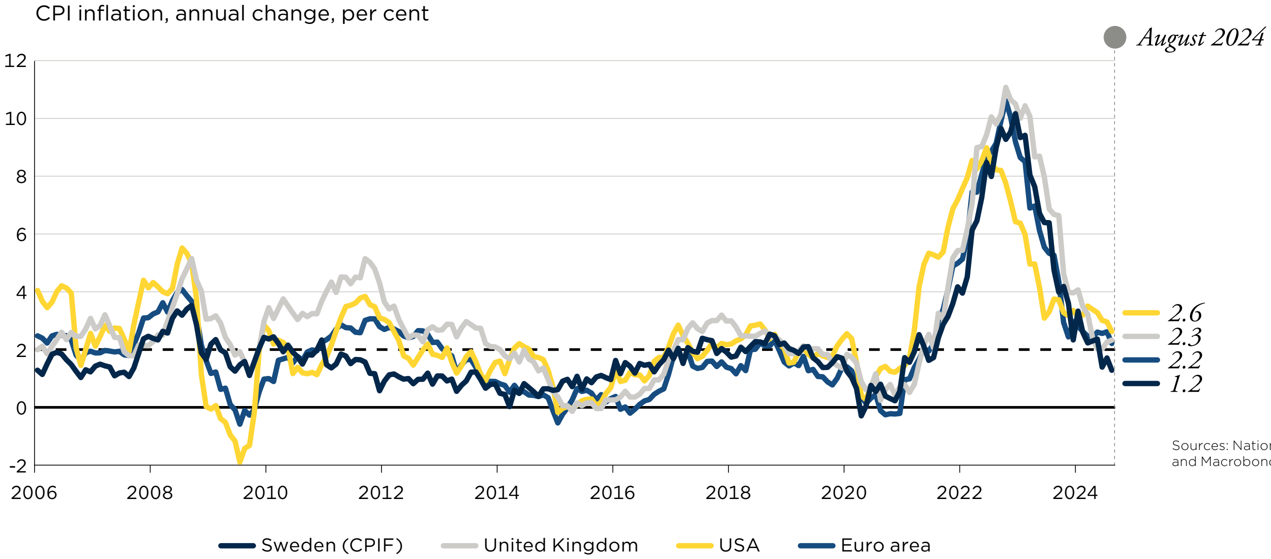
GLOBAL GROWTH SLOWLY PICKS UP MOMENTUM IN 2025
GDP growth 2025, constant prices, annual change, forecast



Sources: Oxford Economics and Business Sweden

INFLATION APPROACHING THE 2 PER CENT TARGET

CPI inflation, annual change, per cent



Sources: National sources and Macrobond

Note: The consumer price index (CPI) monitors the average price development for all domestic private consumption. CPI is the standard metric for compensation and inflation calculations in Sweden, but CPIF is the standard metric that the Riksbank uses in its inflation target. The CPIF metric keeps households' interest rates for mortgages constant. This means that CPIF is not affected by changed rates for housing mortgages.

in world trade were significantly higher. Instead, the global economy is clearly seeing more subdued expectations among both companies and consumers. The current focus is on managing challenges such as inflation, geopolitical concerns, and an increasingly protectionistic environment for trade.

UNCERTAINTY AROUND CHINA

So far, 2024 reveals a fragmented picture of the global economy. The pace at which countries will emerge from the downturn of recent years will clearly vary. While growth in North America has proven to be fairly solid during the first half of the year, indications during the summer pointed to a somewhat more cautious outlook. In Europe, where growth has generally been slow in recent years, some economies such as Spain, have been able to benefit from a growing services sector, coupled with continued diversification of the economy which has created a more stable foundation. Others meanwhile, such as Germany, have been hit harder by global changes and face both structural and cyclical challenges.

The outlook for Asia is clearly divided. The Indian economy continues to be the new star performer, with high and stable growth driven by both domestic demand and increased investments in infrastructure, R&D and other areas. At the same time, China faces significant challenges, despite approaching the country's official growth target of around 5 per cent. These challenges are many and complex, including both domestic structural problems and international tensions. The ongoing conflict around China's so-called overcapacity, especially when it comes to electric vehicles (EV) and solar panels manufacturing, has led several economies, including the EU, to impose, or plan to impose, tariffs on imports from China to protect their industries. This creates an increasingly complicated trade environment where China's low, state-subsidised prices put pressure on the competition and frustrate domestic production in countries that cannot match the price levels of Chinese companies.

But there are more factors contributing to global concerns. Conflicts in the Middle East and Russia's war of aggression in Ukraine are affecting energy markets in Europe. An escalation of these conflicts could lead to further disruptions in supply chains and push up inflation. Similarly, the US presidential election contributes to uncertainty about the future of US economic policy, especially regarding international trade and investments. This creates a global situation where negative risks are likely to weigh heavily, which is why companies and decision-makers must be prepared for sudden changes in economic conditions.

GLOBAL GDP FAILS TO REGAIN PRE-PANDEMIC LEVELS

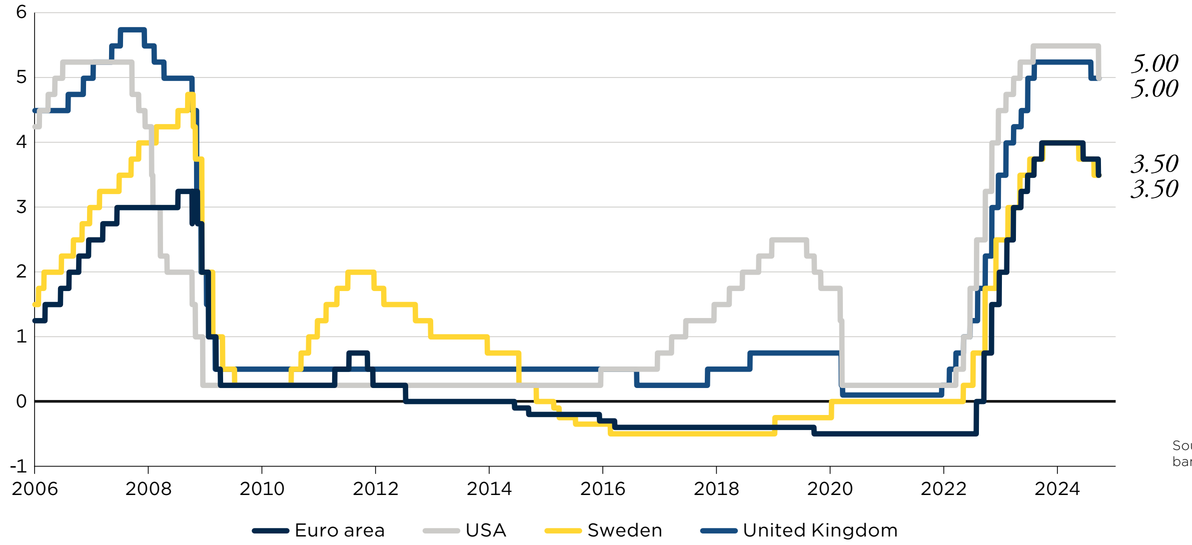
GDP growth, annual change, per cent, constant prices

REGION	2023	2024f	2025f	2026f	Average 2015–2019	Share of global GDP, 2023 (%)
Global	**2.7**	**2.7**	**2.7**	**2.8**	**3.0**	**100.0**
Global, PPP	*3.2*	*3.1*	*3.2*	*3.2*	*3.4*	
Asia & Oceania	4.5	3.9	3.9	3.6	4.8	37.3
Europe	0.8	1.3	1.6	1.8	2.1	23.8
Sweden	*-0.1*	*0.7*	*2.4*	*3.2*	*2.6*	*0.6*
North America	2.5	2.3	1.7	2.1	2.4	29.0
South America	2.0	2.1	2.8	2.7	0.0	4.5
Africa	3.0	2.8	3.4	3.5	3.3	2.7
The Middle East	0.6	2.0	4.0	4.4	2.4	2.7

Sources: Oxford Economics and Business Sweden

LOWERING OF POLICY RATES HAS BEGUN

Policy rate, per cent



Sources: Nationella central banks and Macrobond

The global economy is only slowly gathering pace and GDP growth is expected to reach 2.7 per cent in 2024. As central banks lower their key interest rates, growth will slowly pick up in 2025 but still remain at 2.7 per cent. Global growth will not reach 2.8 per cent until 2026, which is below the average of 3.0 per cent for the pre-pandemic period.

FRACTURED GROWTH PATHS

In Asia and Oceania, growth remains relatively strong compared to other regions, with a growth rate of 3.9 per cent in 2024 and 2025, but then falling to 3.6 per cent in 2026. This is a clear contrast to the high average of 4.8 per cent during the period 2015–2019. Due to its size, the region will continue to be the biggest contributor to global growth in the coming years.

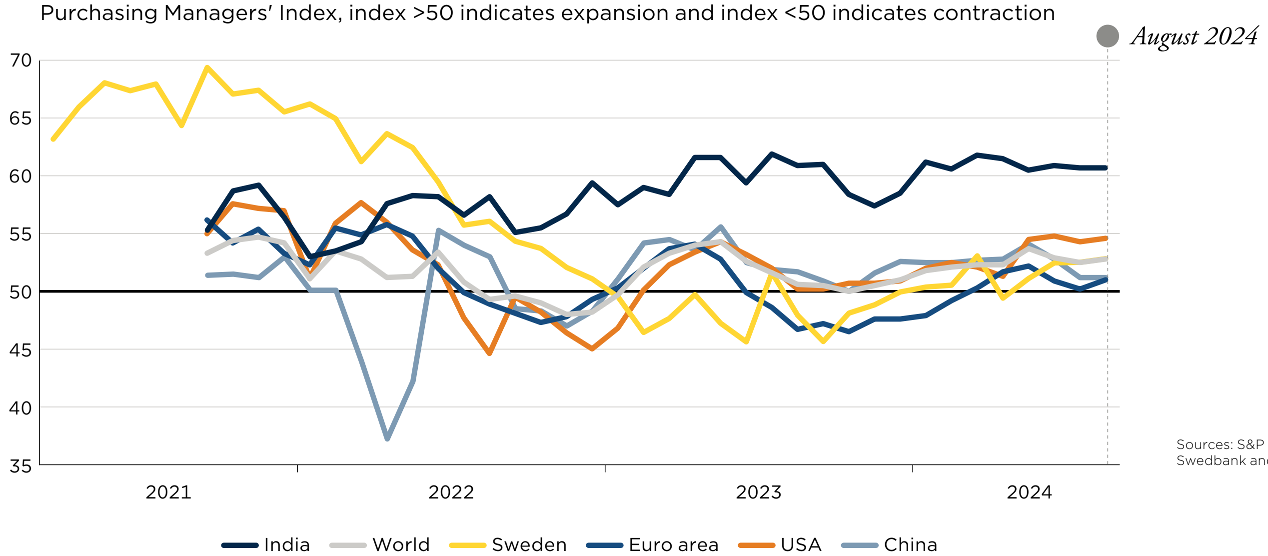
A more modest growth trajectory is facing Europe as growth rises from 1.3 per cent in 2024 to 1.6 per cent in 2025, followed by 1.8 per cent in 2026. This is also somewhat lower than the region's average of 2.1 per cent before the pandemic and reflects the structural challenges that the European economy is facing. But unlike Asia, the cyclical upturn will still lead to an increase in growth during the forecast period.

North America is showing comparatively strong performance in 2024, mostly attributed to the US, but due to an economic slowdown in the coming year, growth will drop to 1.7 per cent in 2025, but tick up again to 2.1 per cent in 2026. This is also just below the average of 2.4 per cent for the period 2015–2019.

While South America's growth forecast is unremarkable compared to the other regions, it is still

COMPANIES ARE MORE OPTIMISTIC ABOUT THE FUTURE

Purchasing Managers' Index, index >50 indicates expansion and index <50 indicates contraction



Sources: S&P Global, Swedbank and Macrobond

RECOVERY IN BOTH WORLD TRADE AND INDUSTRIAL PRODUCTION

Change in per cent, annual rate

Source: CPB World Trade Monitor

significantly better than it was before the pandemic when there was zero growth. Following 2.1 per cent growth in 2024, the region is expected to recover to 2.8 per cent in 2025, and 2.7 per cent in 2026.

Growth in Africa is expected to rise during the forecast period, with a forecast of 2.8 per cent in 2024, 3.4 per cent in 2025, and even go higher in 2026 as it hits 3.5 per cent. This is slightly above the average of 3.3 per cent for the period 2015–2019. Africa's expected growth can partly be attributed to demographic factors and increased investments in infrastructure and digitalisation.

The Middle East faces the strongest growth upturn during the forecast period. GDP growth is expected to be 2.0 per cent in 2024, accelerating to 4.0 per cent in 2025 and 4.4 per cent in 2026, which is significantly higher than the average of 2.4 per cent for the period 2015–2019. This expected growth is due to a recovery in the energy sector as well as economic reforms in some of the larger oil-producing countries.

UPTICK FOR WORLD TRADE

During 2024, world trade has begun to recover, but it is still seeing weak performance. Global industrial production has been sustained during the pandemic, but is now slightly picking up momentum and is expected to grow by 2.1 per cent this year and 3.1 per cent in both 2025 and 2026. The uptick for both world trade and global industrial production coincides with a clear increase in demand for container shipping in 2024. Part of the explanation for the rebound in world trade may be that many companies, especially those dependent on Chinese products, are trying to manage the uncertainty from rising trade conflicts by purchasing goods before tariffs and other trade barriers come into force. This short-term increase has led to higher shipping costs, which in turn could affect inflation and ultimately policy rates globally.

Although global growth has not yet gained much momentum, there are some forward-looking indicators pointing to a more positive future outlook for global economic development. The purchasing managers' indices paint an increasingly promising picture for the near future in both manufacturing, which is showing a slightly more positive trend, and the services sector which continues to perform well. This is pushing the overall purchasing managers' index just above the 50-mark in more and more economies, indicating a normal economic situation.

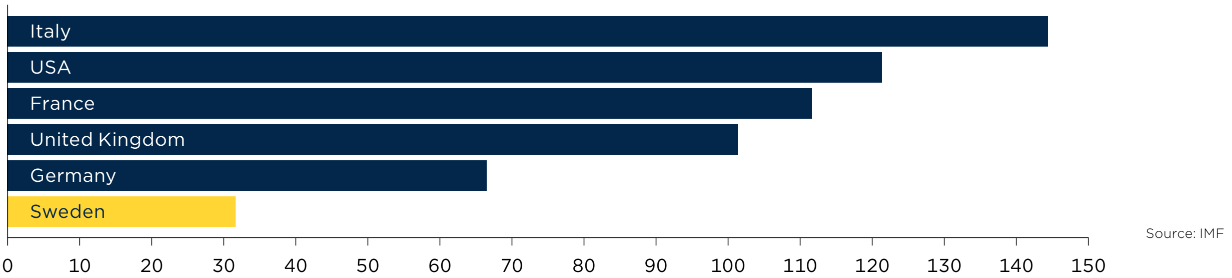
DELAYED IMPACT OF MONETARY POLICY

While the fight against inflation can never be considered entirely over, the fact that many economies have managed to lower inflation is a notable achievement. That said, some challenges remain, especially in Europe and the US, where it has been difficult to curb prices in the services sector. The US has also seen rising concerns about the continued large contribution of housing costs to inflation development. Moreover, unlike Sweden where wage increases have been relatively low, several European economies and the US have not seen the desired dampening of wage increases, which complicates the central banks' efforts to curb inflation. This leads to a situation where inflation targets are difficult to achieve, and where economic policy must strike a balance between supporting growth and avoiding a resurgence of inflation, which limits central banks' room for manoeuvre.

The impact of monetary policy on the real economy is an important factor for how quickly different economies will recover, which varies from country to country. The so-called transmission mechanism, which outlines how changes in central banks'

HIGH PUBLIC DEBT IN MANY LARGE ECONOMIES

Public debt, share of GDP, per cent, 2022



policy rates affect the real economy, works differently depending on the average term of loans, the structure of financial markets, and other factors. The full effects of policy rate changes can be delayed by 12 to 24 months.

The Swedish transmission mechanism is considered to be relatively short. This means that changes in the policy rate trickle through quickly and impact costs of loans for households and businesses, which, in the case of a lowered rate, can stimulate consumption and investments relatively quickly. This contrasts with economies such as the US, where longer term loans and mortgages are more common. For example, the most common form of mortgage is one with a 30-year term. In these economies, policy rate cuts can take longer to take effect which delays the impact on growth. Another complicating factor is that it becomes difficult to assess the ideal policy rate level to stimulate or tighten the economy. The level at which the economy is in balance is usually called the neutral interest rate. Given that it takes time for policy rate changes to fully impact the real economy, it is hard to know when the policy rate has passed this neutral rate level. Central banks will therefore proceed cautiously with their policy rate cuts to give themselves the opportunity to achieve the inflation target and stable growth in a controlled manner. The pace at which policy rates can be lowered depends on the prevailing conditions in individual economies.

FISCAL POLICY TAKES THE SPOTLIGHT

Alongside monetary policy, fiscal policy plays a crucial role in economic recovery. Economies with low public debt have greater opportunities to use fiscal stimulus that supports growth and consumption if needed, in addition to monetary policy. There must also be a balance to ensure that inflation-driving fiscal initiatives are well-timed and do not complicate the ambitions of central banks to curb inflation. Economies that have reached their inflation target are the ones that can fully utilise fiscal policy. It should also be noted that many fiscal policy initiatives, particularly investments and structural measures that contribute to increased long-term growth, do not have the same inflation-driving impact as they raise the long-term potential of the economy rather than current consumption levels.

A challenging situation prevails in several major economies. The economies of southern Europe have long struggled with high debt levels, leading to prolonged efforts to reduce debt, but the pandemic and its aftermath have meant that even economies such as the US and Germany find themselves in increasingly difficult situations as public debt soars to higher levels. High public debt limits the ability of these economies to pursue expansive fiscal policy, meaning they must strike a balance between stimulating growth and avoiding further increases in debt. Additionally, these economies, like many others, face politically challenging situations that make it difficult to push through decisions and pass necessary reforms. This causes further uncertainty regarding how quickly these economies can recover.

The US plays the most central role on the global stage, and the upcoming presidential election in November is causing considerable uncertainty around the country's future economic policy. This applies to both domestic issues, such as taxes and subsidies, and international trade relations. Regardless of who wins the presidential election, it is clear that the US's role in world trade and its relationship with China will impact the development of the global economy.

THE NEUTRAL INTEREST RATE...

... is the level at which the central banks' rates neither stimulate nor restrain the economy. If the policy rate is higher than the neutral rate, monetary policy is tight; if it is lower, it is expansive. The neutral rate does not have a constant level and can be influenced by factors such as long-term economic growth, demographics, savings in the economy, and international investments. Sweden's National Institute of Economic Research has recently determined that the long-term, neutral interest rate in both Sweden and the eurozone is 2.5 per cent, when the economies are presumed to be in balance. The US neutral rate is slightly higher at 2.75 per cent, reflecting the perception that the US will see slightly higher long-term economic growth.

SWEDEN'S ECONOMY AND EXPORTS

Interest rate cuts give households a boost

Investments gain momentum

Exports slowly pick up

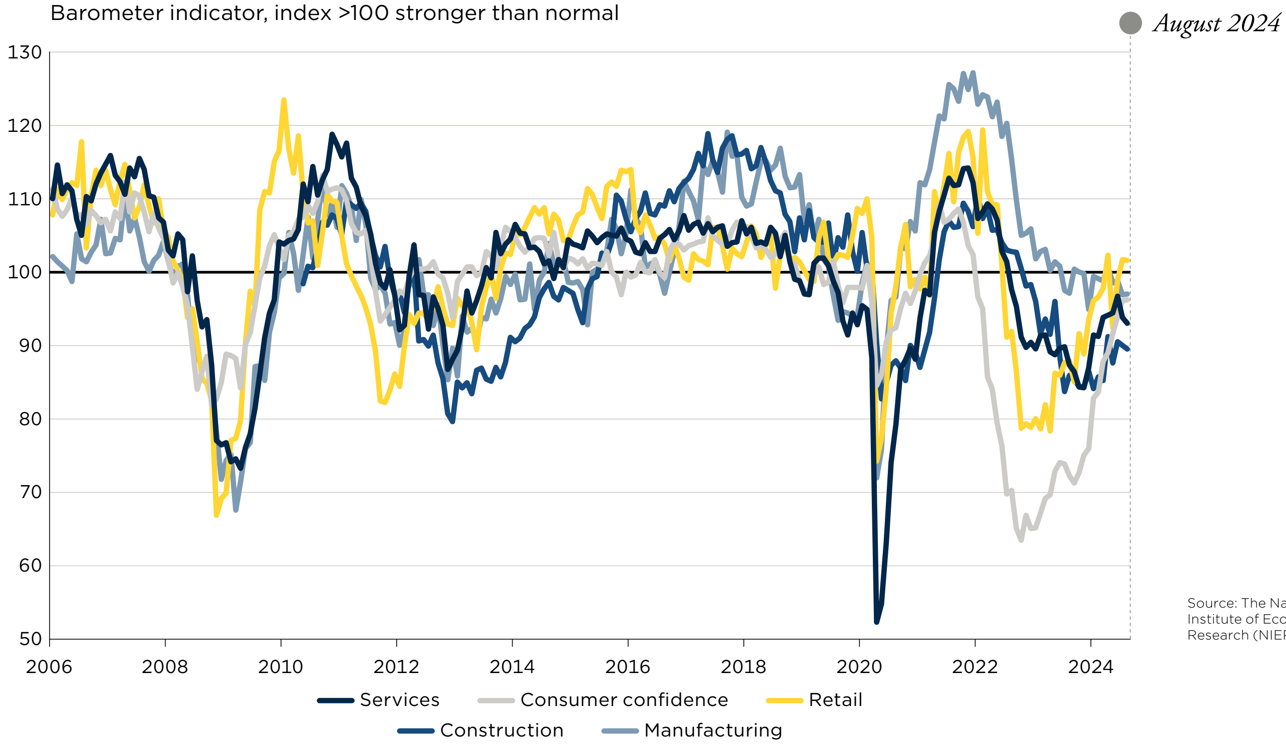
UPSWING IN SIGHT

The Swedish economy is overall well-prepared for the anticipated economic turnaround, primarily in Europe. A loosening of monetary policy, combined with strong public finances and scope for fiscal policy measures, as well as a stable labour market with disciplined employer and employee organisations, provides the conditions for a swift recovery. Even if global growth does not significantly accelerate during the forecast period, domestic demand is ready to overtake exports as Sweden's growth engine. Export has always been a pillar of the Swedish economy and will regain its role as growth in key export markets, such as Germany, Norway, and Finland, recovers in the latter part of 2025 and onwards.

From this perspective, Sweden's future looks relatively bright with expected strong domestic demand and solid growth prospects in both the short and long term. In all, the picture shows that the Swedish economy will see increasing economic activity towards the end of 2024, largely driven by interest rate cuts, pushing up domestic consumption. This will result in GDP growth of 0.7 per cent for 2024. Underpinned by expansive fiscal policy, continued interest rate cuts, monetary policy measures, and real wage increases, consumption is expected to continue to gain strength in 2025 and 2026. Fuelled by rising investments and public consumption, GDP growth is expected to reach 2.4 per cent in 2025 and 3.2 per cent in 2026.

SIGNS OF OPTIMISM IN RETAIL

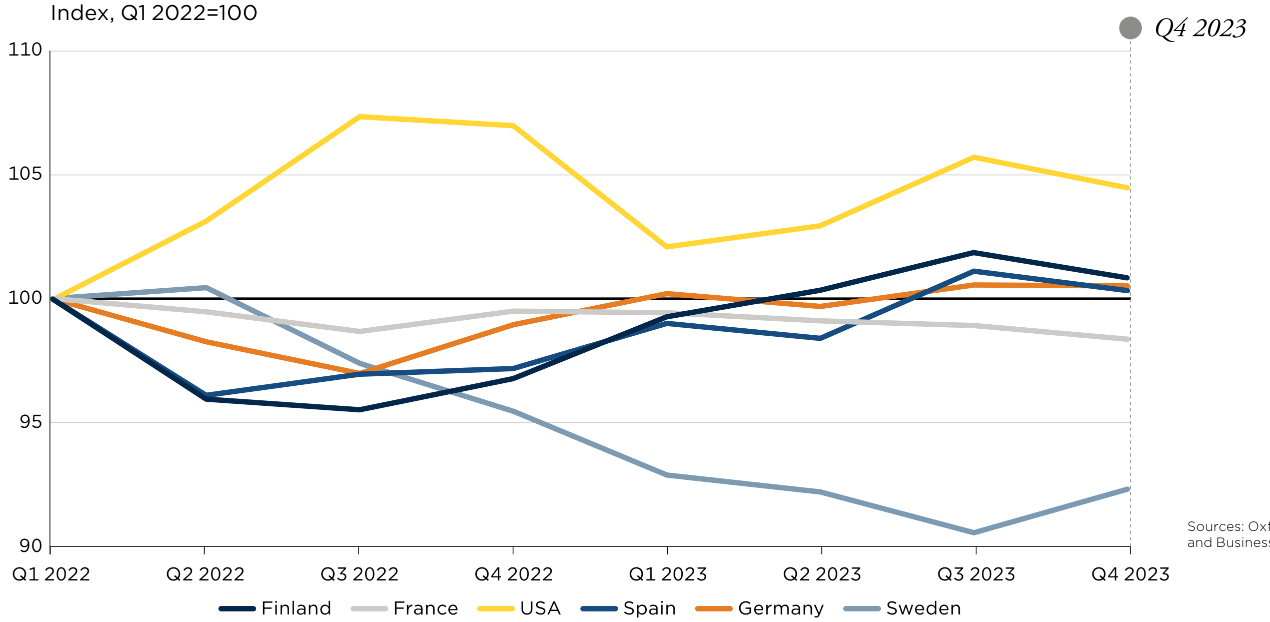
Barometer indicator, index >100 stronger than normal



Source: The National Institute of Economic Research (NIER)

DEVELOPMENT OF RELATIVE UNIT LABOUR COST IN SWEDEN AND SOME OF THE LARGEST COMPETITOR COUNTRIES

Index, Q1 2022=100



Sources: Oxford Economics and Business Sweden

THE ROAD TO RECOVERY

The Swedish economy is poised for recovery in the second half of 2024. Underlying inflation measured as CPIF – consumer prices excluding interest rate effects – has come down to the Riksbank's inflation target, and future inflation expectations are now below the target. In addition, the Swedish economy is relatively well-equipped to bounce back from a period of low growth. The foundation for this expected recovery is based on three pillars: rapid impact of monetary policy, available scope for fiscal policy measures, and a healthy labour market.

Sweden's monetary policy, guided by the Riksbank and the inflation target, has a strong impact on the economy. The Swedish economy differs from other economies in that it has a relatively short transmission mechanism, the mechanism outlining how policy rate changes affect the real economy. The lowering of interest rates is expected to have a relatively large impact on consumption and investments in Sweden. This is partly due to a high level of household debt, and the fact that mortgages in Sweden are often short-term – with nearly 70 per cent of mortgages on a three-month term. This means policy rate adjustments affect the real economy more rapidly than in many other countries. When the Riksbank raised interest rates to combat inflation during 2022 and 2023, this quickly had a dampening effect on growth, given its negative impact on household consumption and the constraints it imposed on credit lending. But now that inflation has fallen to target, policy rates can be lowered again, which is expected to deliver rapid and powerful stimulus to the economy resulting in a boost to consumption and investments.

Besides this, Sweden has strong fiscal policy muscles. Public debt is low (just above 30 per cent of GDP), and given the economic situation, there is room for structural reforms and scope for stimulating the economy. A clear negative GDP gap, where actual growth is estimated to be well below potential growth[1], also means that fiscal policy can stimulate the economy without risking overheating or driving up inflation. This creates a unique opportunity for the Swedish government to stimulate a broad recovery without risking complications in the battle against inflation. Sweden's fiscal policy framework gives the government room to manoeuvre, although there are limits to how far stimulus measures can be stretched without potentially driving up long-term debt.

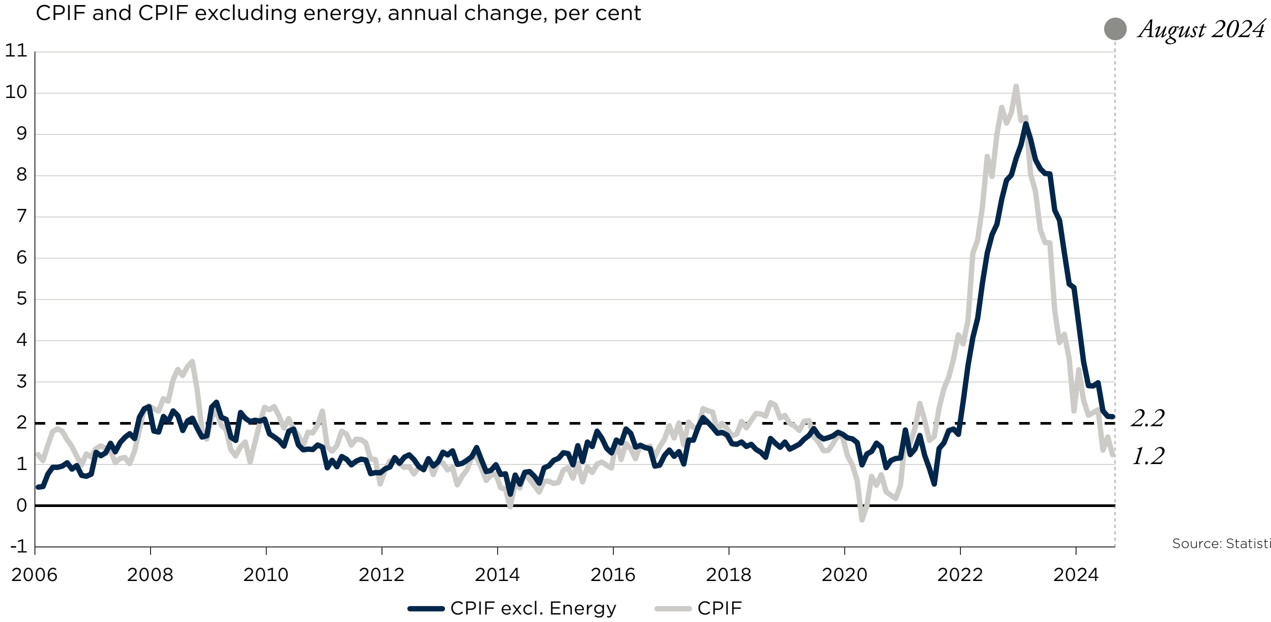
Another key factor is the stability of the Swedish labour market. In the wake of the pandemic and soaring inflation, workers and employers avoided a price-wage spiral thanks to restrained wage development. This has helped to keep inflation in check while also strengthening Sweden's competitiveness. The tempered wage development, combined with a weaker krona, has significantly lowered Swedish unit labour costs relative to other economies. In addition, the high employment rate of 69 per cent means that as real wages now start to rise again, consumption will be given a significant boost that few other economies can match.

The Economic Tendency Survey from Sweden's National Institute of Economic Research (NIER), which monitors views of the Swedish economy, indicates less pessimistic sentiment, especially among households. Views of the economy in the retail sector have also improved in recent months, and the index is now above its average level. Neither the services sector nor manufacturing have managed to

[1] Potentiell BNP är den högsta nivån av produktion ett land kan uppnå utan att driva upp inflationen. Potentiell BNP ökar över tid genom förbättringar i teknik, produktivitet och arbetskraftens tillväxt.

INFLATION HITTING THE TARGET

CPIF and CPIF excluding energy, annual change, per cent



Source: Statistics Sweden

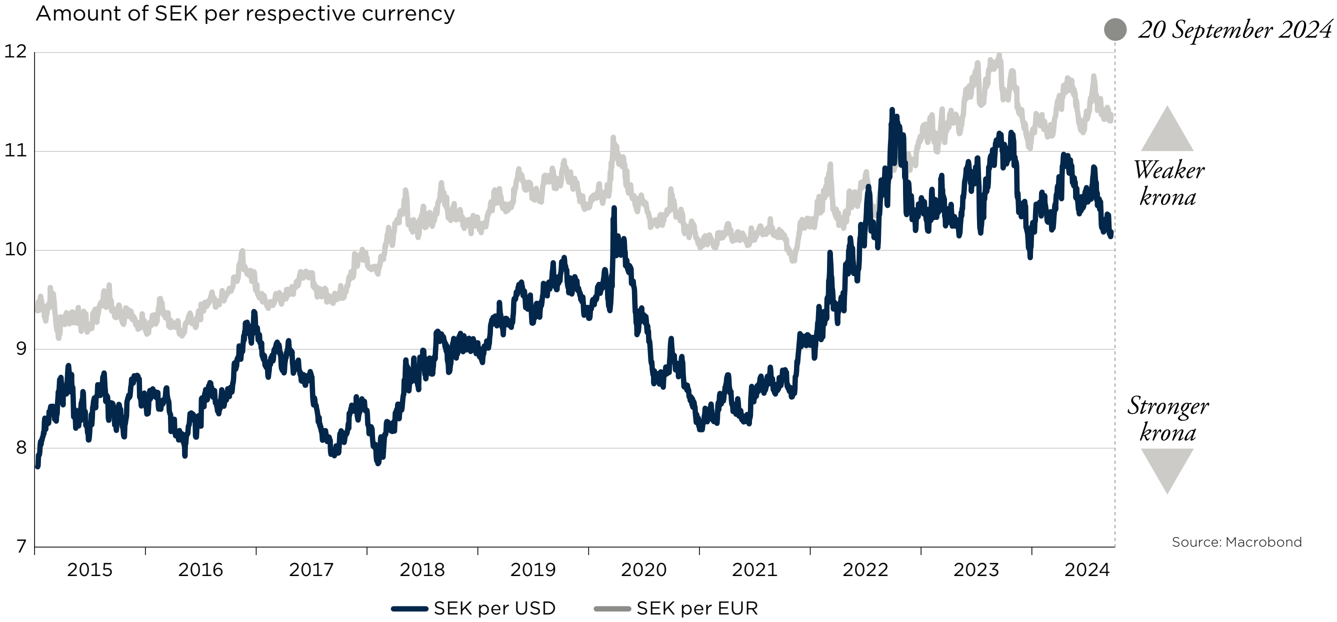
demonstrate a clear upturn in the survey from NIER. The construction sector is facing the greatest challenges as it is heavily affected by reduced demand for housing, due to high interest rates and an unexpectedly weak forecast for population growth. Housing construction will have a clear negative impact on total investments, as a share of GDP, in 2024. Total investments are expected to decrease by 1.6 per cent this year. Improved performance in the sector cannot be expected until next year when interest rates drop further and housing regains momentum. When housing production recovers in 2025 and interest rates have fallen back, total investments in the economy are expected to pick up, increasing by 2.6 per cent in 2025 and 4.1 per cent in 2026.

RESILIENT LABOUR MARKET AND RISING CONSUMPTION

Although unemployment has risen, so far this has not led to any dramatic shifts in the labour market. Unemployment is expected to rise until the end of 2024 and hit a relatively high level, but still remain lower than during previous economic downturns such as during the pandemic and the global financial crisis. The falling demand for labour is also evident in other data, including vacancy statistics where the number of job vacancies has dropped, and in statistics from the Swedish Public Employment Services on redundancies, which have increased. The weak demand for labour is also visible in the recruitment statistics of labour force surveys,

STRENGTHENED SWEDISH KRONA DURING THE AUTUMN

Amount of SEK per respective currency



Source: Macrobond

where the share of newly recruited among all employed has been at very low levels during 2024. Another development is that the number of hours worked has not recovered to the same extent as the number of employed after the pandemic. This, too, indicates reduced demand for labour. The fact that unemployment has stayed low and employment rates high, despite weak demand in both Sweden and globally, points to companies taking a more cautious approach. Many employers tend to retain their workforce despite low demand (so-called labour hoarding), hoping that the economy will soon bounce back, thereby avoiding costly recruitment processes that have been complicated by labour shortages.

The fact that the Riksbank's rate cutting cycle has begun and that households' real incomes are rising, is expected to have a rapid impact on consumption and fuel rising consumption going forward. Consumer confidence has bounced back and is approaching normal levels. The retail sector has gained strength and shows, according to the NIER's barometer indicator, that optimism is returning. For the full year 2024, consumption is expected to increase by a modest 0.4 per cent, but then jump to 2.8 per cent in 2025 and 3.1 per cent in 2026.

STRONGER KRONA IN THE AUTUMN

While inflation is moving in the right direction, there are risks and complicating factors that can impact its trajectory and the Riksbank's monetary policy. A significant, albeit diminishing, risk is the development of the Swedish krona. Since the end of July, the krona has strengthened by about 6 per cent against the US dollar and around 4 per cent against the euro. This strengthening of the currency is expected to continue.

For a small open economy like Sweden, exchange rate fluctuations have a significant impact on the economy via imports and exports. In addition, it is no secret that investors tend to move capital to larger and safer markets in times of elevated global economic uncertainty. This affects the currency market and often causes smaller currencies, such as the Swedish krona, to lose value against larger currencies.

A weak national currency can, on the one hand, make export companies more competitive as their goods and services become cheaper for customers in strong currency areas, which can increase exports. On the other hand, imported goods and services become more expensive, which pushes up prices for products and increases production costs for companies that rely on intermediate goods from abroad. These increased costs can force companies to raise the prices of their products, and companies thereby import inflation, which affects the ability to use monetary policy to stimulate the economy. But overall, the competitive advantages of a weak krona should outweigh the cons. For example, Business Sweden's report "The krona, prices and geopolitics," reveals that just over half of industrial companies consider a weaker krona to be positive as it improves conditions for winning export deals.

Although a weak Swedish krona, and subsequent higher inflation, is still a risk that can cause problems for Swedish monetary policy, there are several factors at play to mitigate this risk, including the current inflation level, high likelihood that most central banks will lower their policy rates going forward, and the strong growth potential of the Swedish economy.

SWEDISH EXPORTS
Annual change, per cent

	2024f	2025f	2026f	Average 2015–2019
Total exports	**1.9**	**2.4**	**3.5**	**4.5**
Export of goods	0.1	1.8	3.5	4.4
Export of services	6.0	3.6	3.3	5.0

FORECAST FOR SWEDEN'S TOTAL EXPORT GROWTH IN GOODS
Annual change, per cent

Region	2024f	2025f	2026f	Share of Swedish exports, 2023 (%)
Global	**0.1**	**1.8**	**3.5**	**100**
Europe	-0.8	1.6	3.6	72.8
Asia & Oceania	3.4	3.6	3.5	11.5
North America	1.6	1.2	3.5	11.0
South America	1.0	1.6	3.0	1.4
Africa	3.7	1.3	1.1	1.6
The Middle East	3.6	3.7	3.8	1.8

Sources: Oxford Economics and Business Sweden

WEAK PERFORMANCE FOR SWEDISH EXPORTS IN 2024

Swedish exports are heavily dependent on global economic performance, and especially developments in Europe, as 73 per cent of Swedish exports are destined to European countries. Due to the relatively moderate growth in Europe, Swedish exports are expected to grow by no more than 1.9 per cent in 2024, which is significantly lower than the average of 4.5 per cent for the period 2015–2019. In line with this expectation, Business Sweden's Export Managers' Index (EMI) for the third quarter 2024 showed a marked decline in the outlook for export development, falling from a relatively high level earlier this year. The main index for both current export performance and the prospects in the next three months indicates that companies do not foresee that export growth will neither pick up nor lose momentum in the near term. The broad decline in the EMI affected almost all subindices, including profitability and order stocks – expected export sales was the only subindex that remained stable, revealing some hope for improvement in the long term.

Exports of services, which have grown rapidly in recent years, were a bright spot in the export statistics. While the growth of services exports is likely to be higher than in export of goods this year and next, it is difficult to see services exports maintaining the same growth rate over time. Export of goods has been more cyclically dependent, and due to continued moderate global growth this year, are barely expected to increase at all. Export of goods will only pick up momentum when European consumption recovers in a broader sense. Coupled with rising domestic demand, export growth will help to bolster growth in the Swedish economy in 2025 and 2026.

North America is the region that Swedish export companies are most positive about, according to Business Sweden's Export Managers' Index for the third quarter. However, due to expected weaker growth and dampened imports in the US in 2025, Swedish exports to the US are also expected to decline next year. In 2026, when US growth is expected to see a somewhat stronger momentum, Swedish exports to the US are expected to pick up again. Export of goods to North America are expected to increase by 1.6 percent in 2024, 1.2 percent in 2025, and 3.5 percent in 2026.

The greatest impact on Swedish exports, and the economy at large, comes from Europe, where 73 per cent of exports go. Europe, with its weak economic development, especially in Germany, will have the biggest dampening effect on Swedish exports in 2024. The Export Managers' Index for expected demand from Western Europe fell slightly in the third quarter to just above the 50-mark, indicating that companies remain cautiously optimistic. When the sluggish European economy picks up in 2025 and 2026, this will give Sweden's export industry a significant boost.

Asia and Oceania, comparable in size to North America as importers of Swedish goods, are expected to contribute positively to Sweden's exports, primarily due to the region's relatively high forecasted growth for the period 2024–2026. Although growth is slowing down in the region's largest economy, China, the growth rates are still high. Besides this, large investments are being made in several Asian economies, which is expected to have a positive effect on Swedish exports of goods to the region already in 2024, as we are likely to see export growth of up to 3.3 per cent this year. It is important to bear in mind that Sweden's trade relationship with Asia is undergoing transformation. Previously established trade routes are being re-evaluated as China manages its faltering economy, and other economies and markets are recognising the opportunity to diversify their footprint in the region.

In all, near-zero growth is expected for Swedish export of goods in 2024. As the European recovery gains momentum in 2025, and since the vast majority of Swedish exports go to Europe, demand for Swedish goods is expected to pick up and result in 1.8 per cent growth. A further uptick is expected in 2026 when European economies strengthen, particularly domestic consumption, resulting in a forecasted growth of 3.5 per cent for Swedish export of goods.

EUROPE

Recovery in sight | **Standstill in Germany** | **Interest rate cuts have begun**

CHALLENGES AHEAD

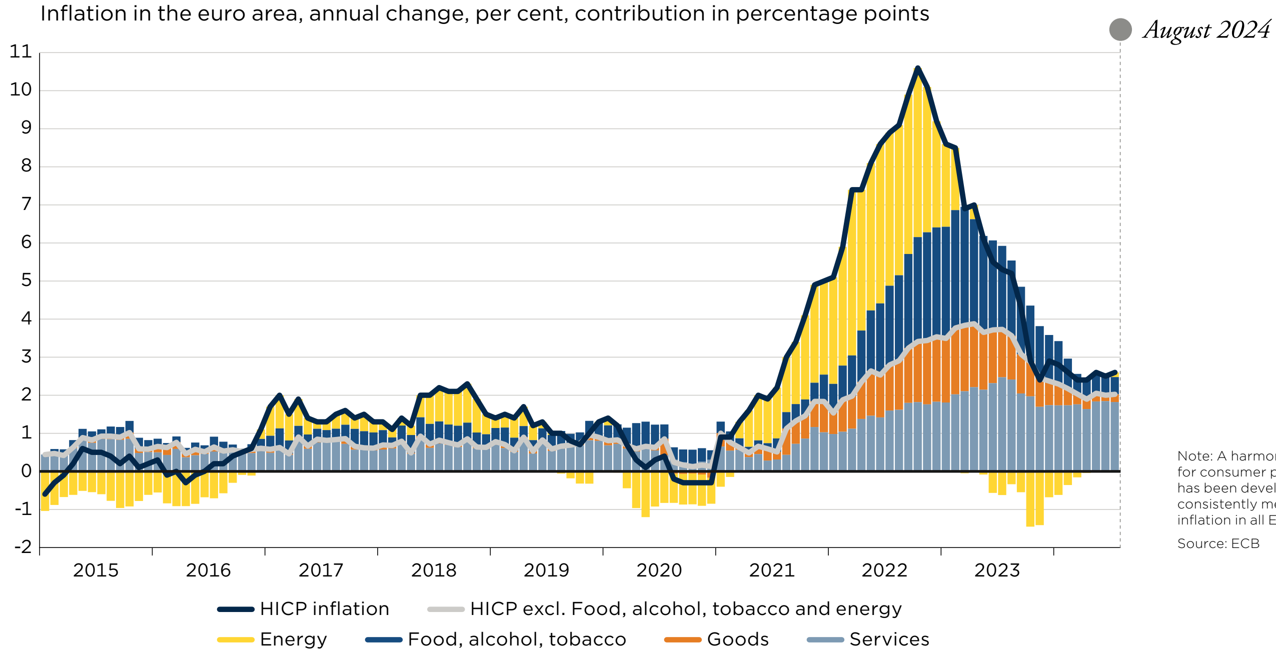
Internal political discord persists while Europe needs to brace itself for major challenges. When it comes to security policy, Russia gained a clear advantage during the spring and summer in its war of aggression against Ukraine, while international support for Ukraine's defence has begun to wane.

In the economic sphere, competition from China is becoming increasingly fierce, while demand for European export goods has cooled in the Chinese market. The EU's trade deficit with China amounted to nearly EUR 300 billion in 2023, the second highest ever, and there is no balancing of trade in sight. Chinese companies dominate the market for products critical to the climate transition, such as wind turbines and solar panels. Chinese electric vehicles (EVs), especially passenger cars, are making rapid inroads into the European market, while European car manufacturers lag behind in electrification and software development. With 14 million jobs directly or indirectly linked to Europe's automotive industry, including suppliers, the companies' difficulties in competing with China could lead to negative social and economic consequences in car-producing countries such as Germany, France, the Czech Republic, Slovakia and Spain. Against this backdrop, the commission decided to introduce temporary tariffs of 20–40 per cent on imports of Chinese electric vehicles from the beginning of July, while negotiations continue with individual Chinese car manufacturers.

The relationship with the EU's largest trading partner, the US, is also tense, although disagreements are few with the current Biden administration. The outcome of the presidential election in November creates uncertainty for European exports of goods to the US, which amounted to EUR 500 billion in 2023, as former president and Republican candidate Donald Trump plans to impose a 10 per cent tariff on most imports if he

INFLATION APPROACHING THE TARGET

Inflation in the euro area, annual change, per cent, contribution in percentage points



Note: A harmonised index for consumer prices (HICP) has been developed to consistently measure inflation in all EU countries

Source: ECB

wins the election. The relatively strong economic performance in the US and the dominance of American tech companies are also politically painful for Europe, which has stagnated in many respects since the Covid pandemic with weak confidence in future prospects.

The energy crisis, triggered by Russia's military attack on Ukraine, has abated thanks to an unexpectedly rapid transition to imported liquefied natural gas, the restart of French nuclear reactors, and two mild winters. However, the gas price has stabilised at a level twice as high as before, which burdens European industry. Inflation has fallen back, and the European Central Bank (ECB) made its first interest rate cut in five years in June, by 25 basis points to 3.75 per cent. The ECB cut the policy rate by another 25 basis points to 3.50 per cent at its September meeting.

The European labour market has weakened in recent months, but unemployment was unchanged at a relatively low 6.0 per cent in the EU overall in July. Households' real incomes have started to increase again as inflation has fallen back, but without significantly boosting consumption. European consumers remain gloomy about the economic situation, likely due to the price increases in recent years. Instead, there has been an increase in household savings. In the services sector, record-high tourism during the summer played a positive economic role, especially for the more tourism-dependent countries of southern Europe.

Standard & Poor's (S&P) Purchasing Managers' Index for the eurozone reveals a split assessment of Europe's economic performance. The index for manufacturing remained unchanged at 45.8 in August, indicating continued low activity. However, the services sector continued its upward trend, rising to 52.9 in August from 51.9 in July. Preliminary figures for the September survey, however, show that the situation is worsening for manufacturing while the services sector is falling back again.

In early September, former Italian prime minister and ECB president Mario Draghi presented the long-awaited report *The Future of European Competitiveness* on behalf of the European Commission. The report estimates that the EU needs to mobilise EUR 750–800 billion per year to keep pace with the US and China and meet the union's ambitions in the digital and green transition, as well as in the defence sector.

GDP growth in Europe is expected to reach 1.3 per cent this year, then rise slightly to 1.6 per cent in 2025, supported by a moderate upturn in private consumption and investments, as well as a rebound in exports. The forecast for 2026 shows continued economic expansion of 1.8 per cent, driven by a gradual but tempered rise in global demand.

POLITICAL TURBULENCE

It has been an eventful first half of 2024 in European politics. The EU Parliament election in early June resulted in significant gains for the far-right, especially in France and Germany. The fact that Marine Le Pen's right-wing party Rassemblement National (National Rally) became the largest party with a third of the votes led French president Emmanuel Macron to immediately dissolve the National Assembly and call for new elections. After the second round of voting in early July, it was clear that Macron's party Renaissance had lost significant ground, but through electoral cooperation with left- and right-wing parties, they managed to prevent a victory for Le Pen. No bloc can gather a majority in the National Assembly, which spells a difficult path forward for Macron and his political programme. In early September, he appointed veteran and Brexit negotiator Michel Barnier as the new prime minister, in an attempt to form a government that is accepted by the parliament.

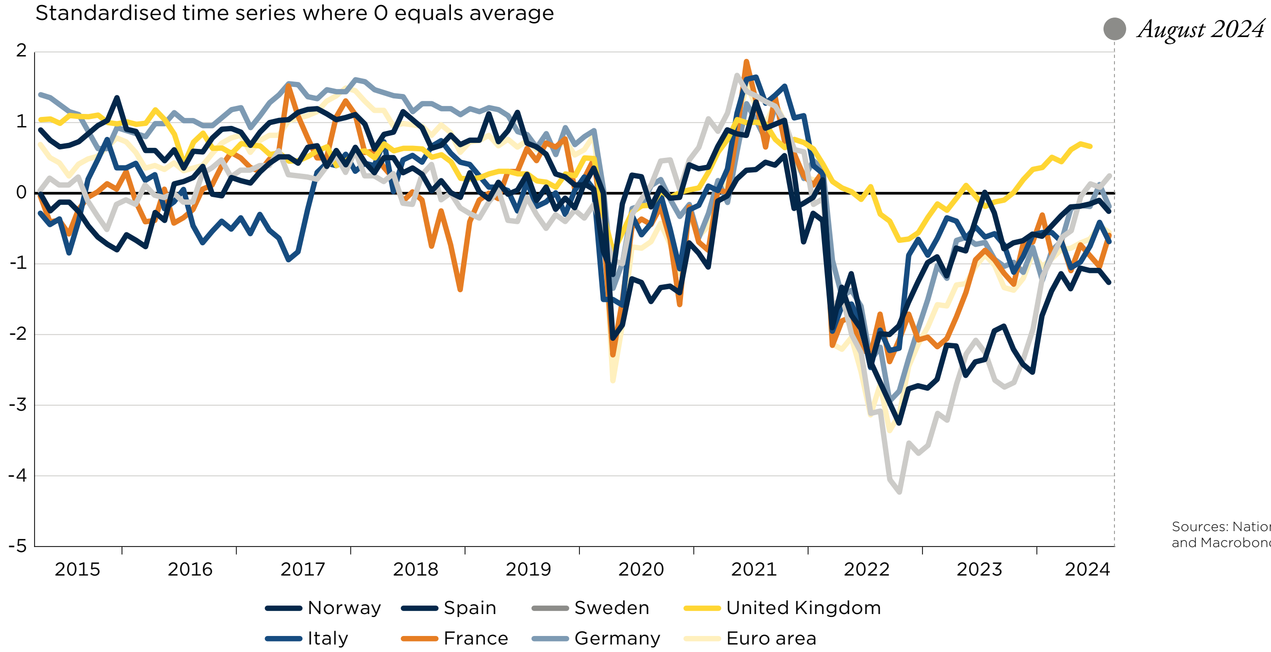
In mid-July, the European Commission president and Christian Democrat, Ursula von der Leyen, was re-elected by the EU Parliament for a new five-year term from 2024 to 2029. A new commission will be formed with selected candidates from the member states. The president, together with the European Council, will appoint the new commissioners and areas of responsibility in November 2024.

In UK's general election in early July, the ruling conservative Tory party, led by prime minister Rishi Sunak, achieved a historically poor result and lost power after 14 years. With his newly-won massive majority, the new prime minister – Labour leader Keir Starmer – has promised rapid reforms to address widespread dissatisfaction with a faltering public sector and an underperforming UK economy. The election outcome has also sparked debate about changing the system of majority voting in single-member constituencies, given that the election result has been described as the least proportional in British history. The leading parties, Labour and Tory, together received just 60 per cent of the votes.

Dissatisfaction with political and economic developments is also widespread in Germany, especially in eastern Germany, where the far-right Alternative for Germany (AfD) made significant gains in the state elections in September in Thuringia, becoming the largest party, and in Saxony, where AfD came close behind the Christian Democratic Union (CDU). Support for the coalition government, led by Social Democratic chancellor Olaf Scholz, remains weak, with growing opposition to the government's climate policy, which bans new gas and oil power plants, and to security policy particularly when it comes to support for Ukraine. Meanwhile, calls for a more restrictive migration policy are also growing. The German government's budget proposal for the autumn includes halving support for Ukraine.

CONSUMER CONFIDENCE IS LOW BUT PICKING UP MOMENTUM

Standardised time series where 0 equals average



Sources: National sources and Macrobond

LACK OF MOMENTUM

Germany. Pessimism about the German economy is widespread among businesses and households and weakened again during the summer. The more than two-year-long stagnation with zero growth that began in the spring of 2022 continues this year.

The extremely difficult situation facing the German industry during the acute phase of the energy crisis has now eased as energy prices fell back from sky-high levels. Nonetheless, the gas price in Europe has stabilised at a level twice as high as before the crisis, which continues to hamper industry. Energy-intensive manufacturing continues to lose competitiveness while the crucial automotive industry is faltering under pressure from Chinese competition, especially in the electric vehicle market. Declining global demand, not least from Germany's fourth-largest export market, China, is reflected in the bleak outlook for industrial production and exports, which are expected to increase very slightly this year. In September, car manufacturer Volkswagen announced that the company might have to close several factories in Germany for the first time ever.

There are still bright spots in the German economy. Rising wages and rapidly falling inflation are boosting households' real incomes after the losses during the Covid pandemic and energy crisis, and private consumption is rebounding during the year, albeit modestly by 0.6 per cent. The labour market remains robust, although it has started to show signs of weakness. Unemployment was unchanged at 6.0 per cent in July, the highest level in three years. A survey-based indicator developed by the EU Commission signals that German businesses have extensive overstaffing, so-called labour hoarding, implying that many people are at risk of quickly losing their jobs if the economic situation worsens.

S&P's Purchasing Managers' Index for manufacturing fell back during the summer and hit a 42.4 in the August survey, which is significantly lower than in other major European economies. The index for the services sector also fell back to and hit 51.2 in August. The Ifo index also clearly indicates that Germany's economy is in a slump, showing low results for companies' views on both current economic performance and the next six months.

The German economy is therefore expected to show zero growth this year, lacking support from households and external demand. A fragile recovery will begin during the autumn, but still resulting in weak growth of 0.7 per cent in 2025. The economy is expected to gradually gain more momentum and grow by 1.4 per cent in 2026, mainly due to a slight upswing in private consumption and investments. Exports are expected to perform moderately in the coming years, in tandem with gradually rising global demand.

France. The French economy showed stronger performance than expected during the first half of 2024, especially during the summer. The successful hosting of the Olympic Games in Paris gave a short-term boost, as did the fact that tourism achieved yet another record year with a forecasted 100 million foreign visitors. Households are benefitting from rapidly falling inflation and modest wage increases. Unemployment fell to 7.3 per cent in July, which is historically a low figure, in an otherwise robust labour market.

At the same time, private consumption is showing weak performance of 0.6 per cent this year, and investments are falling back, partly due to political unrest in the run-up to and outcome of the parliamentary election. An increase in consumption is expected, but it will likely be delayed until further interest rate cuts come into effect.

Various surveys give different indications about the state of the French economy. The well-established Business Climate Index from the statistical office Insee showed an uptick in August to a level just below the historical average, partly due to increased order intake for export sales. Consumer confidence also rose slightly but remains at a low level. S&P's Purchasing Managers' Index for manufacturing, however, fell back to 43.9 in the August survey, signalling a continued economic downturn, while the index for the services sector surged to 55.0, a sharp increase from the 50.1 reading in July.

France's GDP growth for 2024 is expected to reach 1.2 per cent, mainly driven by public consumption and net exports. Next year, growth is expected to fall back slightly to 1.0 per cent before climbing to 1.5 per cent in 2026, in a broad but moderate economic recovery.

United Kingdom. The British economy is performing better than expected, with GDP expected to increase by 1.1 per cent this year, following last year's zero growth. The recovery is driven by a slight upturn in private consumption and a boost in public consumption, which compensates for stagnant investments and a decline in exports. A slowly rising Purchasing Managers' Index, reaching 52.5 for manufacturing and 53.7 for the services sector in August, confirms the overall view that the economy is gaining some momentum.

The labour market shows strong development, with unemployment falling to 4.1 per cent in July. Households' real incomes have grown thanks to falling inflation and rising wages. A divided board at the Bank of England decided on a first interest rate cut of 25 basis points to 5.00 per cent at the August meeting, while signalling further rate cuts ahead.

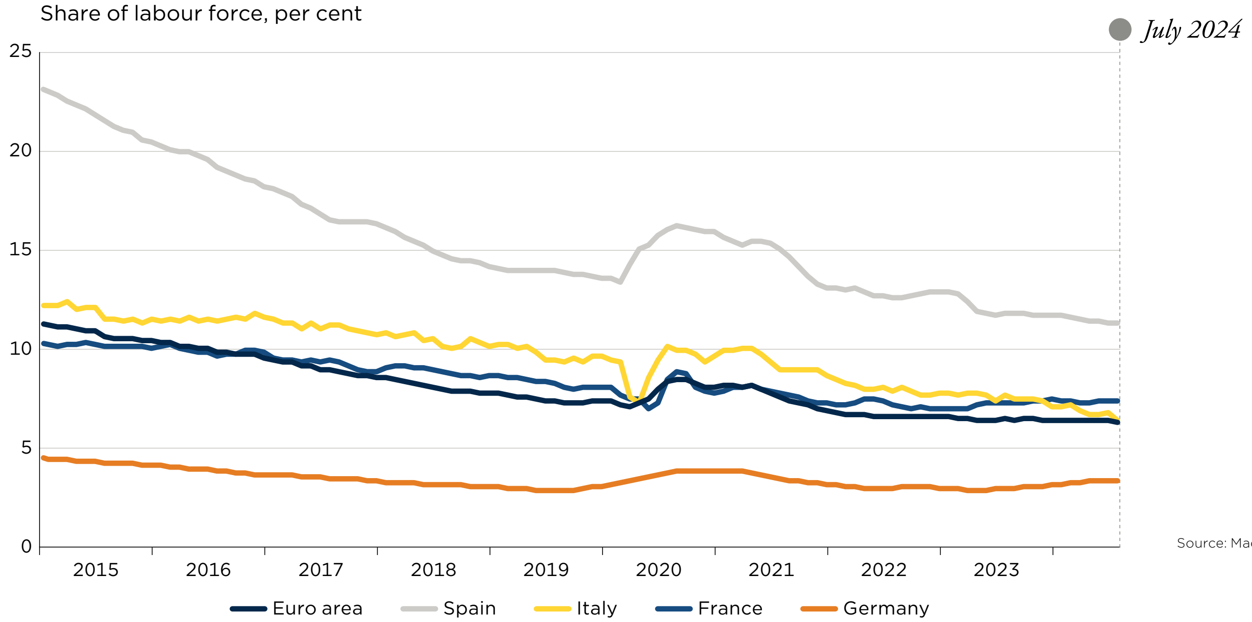
The new Labour government has announced a growth-focused policy with investments in infrastructure and housing construction, where deficiencies have been identified as being major causes of weak productivity in the British economy since the global financial crisis. The government also plans to implement certain tax increases to strengthen the underfunded public sector and facilitate better mobility in the labour market.

The recovery in the British economy is expected to continue in 2025 and 2026 with GDP growth of 1.7 and 1.8 per cent, respectively, in a clear upswing for both private consumption and investments.

Italy. The forecast for the Italian economy in 2024 shows moderate expansion of 0.8 per cent, with stagnant private consumption and an upturn for investments. Exports are also stagnating, despite a significant contribution from services exports, boosted by a new record summer for tourism. In recent years, Italy has established itself as the world's sixth-largest exporter of goods after Japan, pushing France down to seventh place.

Households benefit from solid wage development and rapidly falling inflation, which is expected to average 1 per cent for the year, well below the ECB's inflation target of 2 per cent. The labour market remains strong, and unemployment has gradually fallen to 6.5 per cent in July, which is the lowest level since the financial crisis of 2008/2009. S&P's Purchasing Managers' Index for manufacturing rose to 49.4 in August after a new dip during the summer. The index for the services sector moved in the opposite direction and

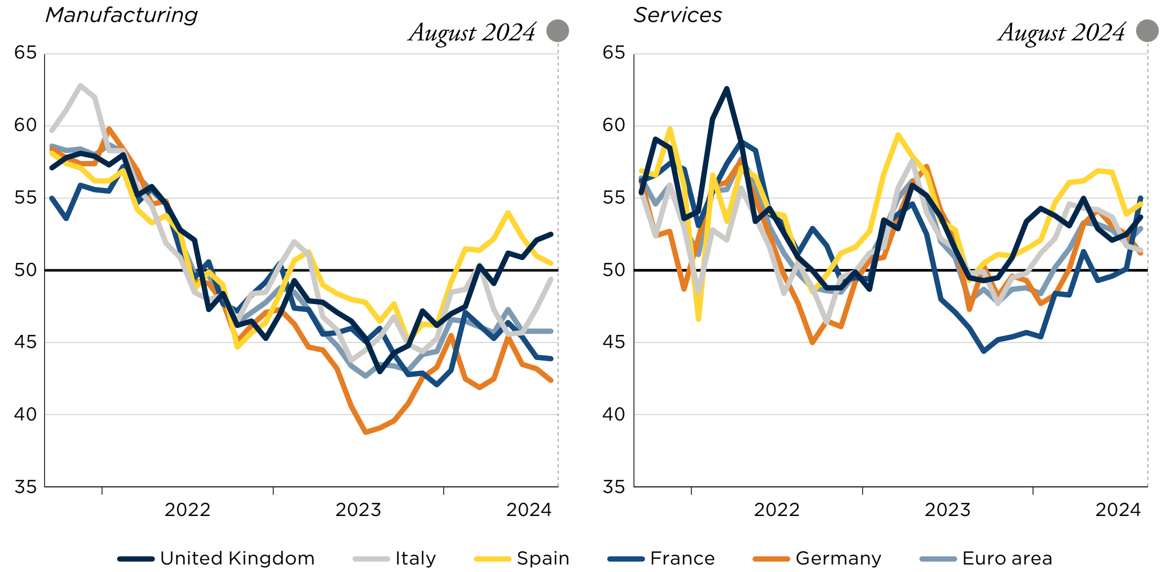
NO APPARENT WEAKENING OF LABOUR MARKET
Share of labour force, per cent



Source: Macrobond

WEAK PERFORMANCE IN MANUFACTURING, BUT SERVICES DOING WELL

Purchasing Managers' Index, manufacturing and services sector, index >50 indicates expansion and index <50 indicates contraction



Sources: S&P Global, Macrobond

hit 51.4 following a gradual decline in the past six months. This indicates cautious optimism about market developments.

A considerable challenge for prime minister Meloni's right-wing government is how it will use Italy's allocation of EUR 192 billion in funds and loans from the EU's recovery fund within Next Generation EU in a productive way – which also needs to be acceptable in the eyes of the European Commission. According to public statistics, EUR 50 billion had been used by the end of last year.

The GDP forecast for 2025 stands at 1.0 per cent growth, mainly driven by a moderate upturn in private consumption. Demand will continue to rise in 2026, but due to a declining investment rate and stagnant public consumption, growth will remain at 0.9 per cent.

Spain. The Spanish economy continues to be one of the few fast-growing in Europe, largely thanks to a strong services sector. Like other European countries in the Mediterranean region, tourism reached record levels in terms of number of foreign visitors during the spring and summer.

Growth made a surprisingly positive performance in the first six months of 2024, driven by solid development of private consumption, investments and exports. Households' real incomes are recovering despite a lingering inflation rate of just under 3 per cent on average for the year, which is above the eurozone average, and the labour market continues to generate jobs. Unemployment fell to 11.3 per cent in the second quarter, the lowest level for Spain since the global financial crisis, but still one of the highest in Europe.

S&P's Purchasing Managers' Index shows that Spain experiences the same dual developments that characterise most European economies; While the index for manufacturing fell to 50.5 in the August survey, the index for the services sector rose to a robust 54.6.

A significant increase in investments is expected next year as a substantial portion of Spain's EUR 140 billion in funds and loans from the EU's recovery fund Next Generation EU is deployed. The forecast for the Spanish economy is positive, with an expected expansion of a 2.8 per cent this year, after which growth will slow to 2.0 per cent in 2025 and 1.6 per cent in 2026, in a broad but mild decline.

GROWTH BOOST IN EASTERN EUROPE

Russia. Despite the enormous costs of its war of aggression in Ukraine, economic sanctions imposed by over 30 countries, and a massive exodus of foreign companies, the Russian economy is expected to grow by 3.9 per cent this year. Growth is driven by a large increase in private consumption and increased investments, most of which can be assumed to go towards military purposes and a transition to national self-sufficiency. Inflation is expected to rise to an annual average of just under 8 per cent.

The state treasury has benefited from an oil price (Ural) that has fluctuated between USD 65–80 per barrel over the past year. Western economic sanctions have not had the intended effect as Russia has been able to import essential intermediary goods from friendly and neighbouring transit markets.

Many factors are pointing towards a protracted war that is currently going Russia's way. Developments are moving towards full-scale state control of the Russian economy, an escalation of industrial investments to replace lost imports with national production, and expanded public mobilisation to fight in Ukraine. Military expenditures as a share of GDP are expected to reach 7 per cent this year, or just under a third of the state budget.

Russia's GDP is expected to rise by 1.7 per cent next year, mainly driven by public consumption and investments. For 2026, growth is expected to slow to 0.5 per cent. However, the basis for analysing developments in the Russian war economy is limited.

Turkey. The economy is expected to grow by 2.7 per cent this year, thanks to an increase in public consumption and net exports that replace stagnant private consumption. Forecasts for tourism indicate a record year in 2024, with an expected contribution to GDP of just over 12 per cent, the same level as Spain.

A significant credit expansion has helped maintain demand in the economy, but more and more signals now indicate an ongoing slowdown. Retail sales fell back during the summer. Households need to manage inflation, which is expected to hit just under 60 per cent on average for the year. Meanwhile, the central bank kept the policy rate unchanged at 50.00 per cent at its August meeting. As recently as May 2023, the policy rate was 8.50 per cent.

The labour market continues to perform well but also masks significant underemployment. Unemployment fell back to 8.8 per cent in July, after a rebound the previous month that broke a downward trend.

An expected decline in private consumption will dampen GDP growth to 1.9 per cent next year. A positive development in net exports will then contribute to a boost in growth by 2.2 per cent in 2026. Investments will perform poorly during the forecast period. But the prospects for Turkey's apparent inflation economy are uncertain.

Central and Eastern Europe. The forecast for *Poland* shows GDP growth of 3.3 per cent this year, driven by robust private and public consumption. Polish households' real incomes are increasing due to a continued strong labour market, rising wages, and an inflation rate that is expected to fall to just under 4 per cent on average for the year, from just over 11 per cent last year. At the same time, heavy reliance on the faltering German market is evident in weak industrial production and stagnant exports. Continued high pressure in domestic demand, combined with an investment peak generated by EU funds, is expected to result in growth of 3.6 per cent next year and 3.5 per cent in 2026.

Hungary is back on the growth path with an expected economic expansion of 1.5 per cent this year, followed by 3.3 per cent in 2025 and a full 3.9 per cent in 2026, driven by high private and public consumption and a soaring rate of investments.

Just like in Poland, this year's outcome is dampened by the faltering European market, particularly Germany, through significant declines in industrial production and exports. Tensions between prime minister Orbán's government and the EU have escalated during the year, as Orbán used Hungary's six-month EU presidency for controversial visits and talks in Moscow and Beijing. The disbursements of significant amounts of EU support are frozen as a mark against Hungary's violations of fundamental democratic principles, including increased political control of the judiciary.

Czech Republic has also lifted from a year of zero growth, with a forecast for GDP growth of 1.0 percent this year. Strong developments in private consumption and investments will drive growth to 2.9 percent next year and 3.5 percent in 2026.

DENMARK A WINNER

The Nordics. The economy in *Sweden* is assumed to gain momentum during the year, driven by policy rate cuts leading to rising domestic consumption. This will result in GDP growth of 0.7 per cent for 2024. Consumption continues to rise during the forecast period driven by expansive fiscal policy measures, continued monetary policy stimulus, and rising real wages. Coupled with rising investments and public consumption, GDP growth is expected to hit 2.4 per cent in 2025 and 3.2 per cent in 2026, see separate section *Sweden's ecomony and exports.*

The forecast for *Finland* shows a decline of -0.2 per cent this year, mainly due to large setbacks for investments and exports. Private consumption is stagnating while the labour market is weakening. Unemployment fell back to 7.9 per cent in July after peaking at 10.2 per cent in May. With falling inflation, interest rate cuts, and rising external demand, a recovery has begun this autumn which will result in 2.0 per cent growth in 2025 and 1.9 per cent growth in 2026.

Despite weak momentum in private consumption and falling investments, GDP growth in *Denmark* is expected to hit 1.6 per cent this year, with net exports making a significant contribution. The Danish pharmaceutical company Novo Nordisk, whose diabetes medication has proven effective in treating obesity and other diseases, has quickly become Europe's highest-valued company. The company contributes to a more than 10 per cent boost for industrial production this year, but also masks an otherwise weak development for Danish industry. The Danish economy is expected to accelerate in 2025 and 2026 with growth rates of 1.9 and 2.9 per cent, respectively. This upturn will be driven by private consumption and investments, while growth in exports is expected to hit normal levels.

In *Norway*, growth is expected to hit 1.8 per cent this year, mainly due to high public consumption and strong export performance, while investments fall back. Norway's central bank kept the policy rate unchanged at 4.50 per cent at the August meeting and emphasised that the bank's inflation target has not yet been reached, with inflation at 2.6 per cent the same month. This means that interest rate cuts may be delayed until next year. The country's important offshore industry is still showing strong performance and benefits from Europe's reorientation of gas purchases from Russia to new suppliers. The forecast shows declining activity in the economy next year, with GDP growth of 0.5 per cent, followed by a strong rebound in 2026 as growth hits 1.9 per cent.

ASIA

Slowdown in China

Robust growth in Southeast Asia

Full steam ahead in India

GRADUAL SLOWDOWN IN THE REGION

Financial markets in Asia have seen increased volatility in recent months, evoking memories of past economic crises. Whether we look back at the Asian financial crisis of 1997 or the global financial crisis of 2008, it is clear that changes in major economies like the US and China often affect the region's economic stability. The latest episode of turmoil began in August, when unexpected interest rate hikes in Japan and signs of slowdown in the US economy led to increased fluctuations in Asian currency markets.

The economic uncertainty has not yet fully subsided, and many markets expect continued volatile conditions during the autumn. The biggest impact on Asia will likely be seen via reduced exports and knock-on effects on domestic economies, as well as some pressure on currencies and interest rates.

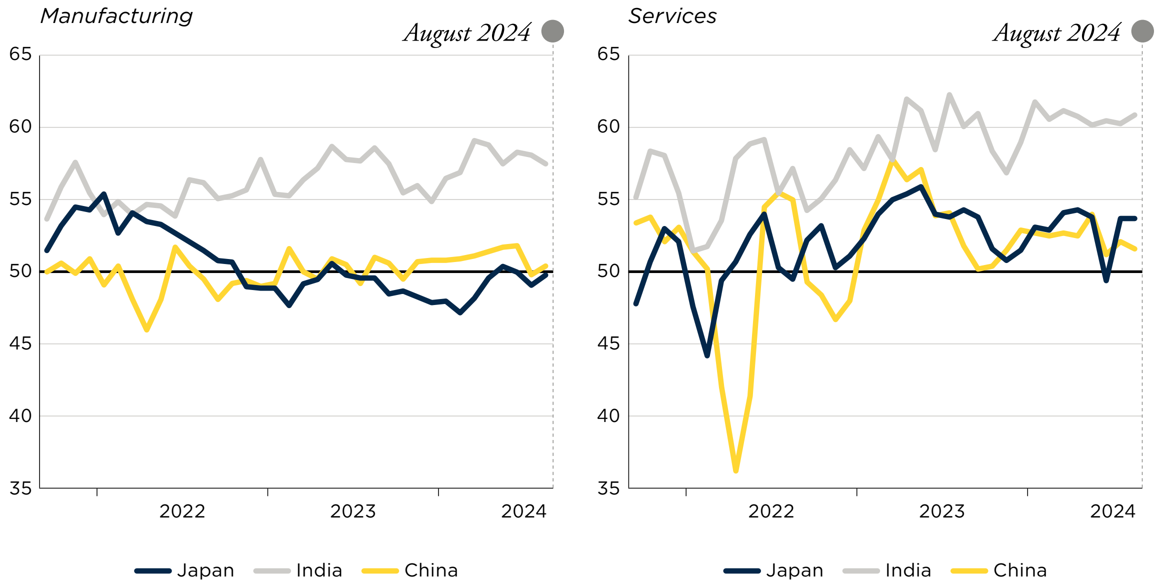
The forecast period for Asia indicates an ongoing slowdown, with growth particularly slowing in the region's largest economy, China. The other smaller economies reveal a mixed picture. Economies that are dependent on the Chinese market and industrial muscles will see a slight decline in growth during the forecast period, while others may benefit from the gaps that arise in the region.

The rapid growth of the technology sector, driven by the global AI boom, has particularly benefited economies such as South Korea and Taiwan, but whether this boom can continue is an open question. Malaysia's economic upturn, driven primarily by investments in machinery and semiconductors, also reflects the global demand for technology, and the country's economy is expected to grow by 4.4 per cent this year, 4.0 per cent in 2025, and 5.6 per cent in 2026.

While this technological expansion represents a bright spot, it is still uncertain how long it can last

OPTIMISM IN ASIA’S BUSINESS SECTOR

Purchasing Managers’ Index, manufacturing and services sector, index >50 indicates expansion and index <50 indicates contraction



Source: S&P Global

and what spillover effects it will have. In Indonesia and the Philippines, it is robust private consumption that plays a decisive role in domestic growth. Indonesia also benefits from relatively high private investments, and the Philippines from public investments, but the question is whether these investments can be maintained in a continued high-interest environment. Indonesia is expected to grow by 5.1 per cent in 2024, 4.9 per cent in 2025, and 5.1 per cent in 2026. The Philippines shows somewhat stronger growth at 5.7 per cent in 2024, 5.9 per cent in 2025, and 6.0 per cent in 2026.

Vietnam stands out as a strategic hub for foreign direct investments, especially from companies looking to avoid US tariffs on Chinese goods. The continued influx of foreign direct investments, primarily in manufacturing, strengthens the country's export capacity and growth prospects. As global interest in diversifying supply chains and AI technology continues to rise, Vietnam can cement its role in the region, particularly in high-value-added sectors like electronics. This trend can have broad effects on global trade flows, especially if China continues to face challenges in global trade. Vietnam is expected to grow by 5.9 per cent in 2024, 6.2 per cent in 2025, and 6.3 per cent in 2026.

At the same time, several challenges remain for the region. Household debt is increasing, and the uncertain development of global growth affects investments. Export performance is particularly dependent on developments in China and the US, where both economies are now expected to slow down in the coming years. Additionally, strong fiscal support is lacking, as interest rates have risen and many governments need to tighten their budgets.

In all, an uncertain economic trajectory characterises Asia, where part of the region benefits from the ongoing IT boom, while other parts struggle with structural challenges and weak global demand. How this situation develops will depend on global economic cycles and the region's ability to manage its domestic economic challenges.

China. China is facing long-term structural challenges – demographics, productivity, and debt – that place a heavier burden on the economy than the short-term, cyclical effects of economic stimulus can counter balance. GDP growth slowed to 4.7 per cent in the second quarter of 2024, compared to 5.3 per cent in the first quarter. Exports were one of the few parts of the economy that showed continued strength in the second quarter, mainly due to China's price advantage. But how long this growth can continue is an open question, especially as the US regardless of who wins the presidential election – is in favour of tariffs on Chinese goods. Although China has found ways to circumvent these tariffs by exporting via third countries, it is likely that moderate global economic growth and doubts about the sustainability of the current technological boom, particularly in AI, will limit export growth in the long term.

Diminishing returns on investments lie at the heart of the long-term challenge for China, which drives the need for transitioning away from an investment-driven economy to a consumption-driven growth model. So far, this transition has not succeeded. Household consumption as a share of GDP is currently around 37 per cent, significantly lower than the global average of roughly 55 per cent. In fact, the consumption share has slightly decreased compared to the pre-pandemic level, which shows the difficulties China is facing in terms of stimulating domestic demand and reducing its dependence on foreign investments.

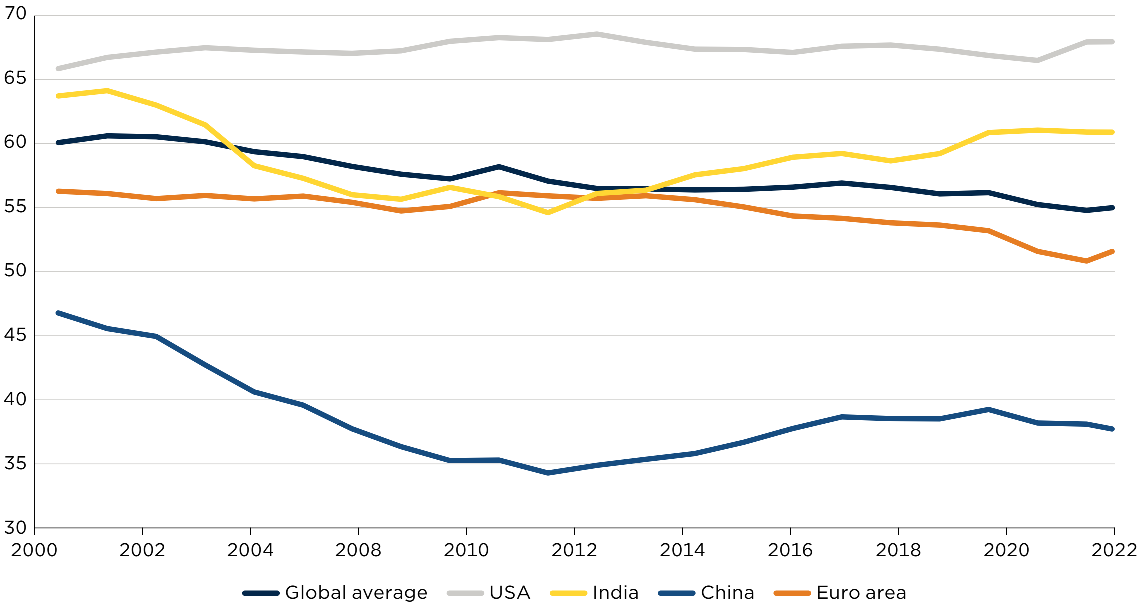
At the third plenum held in China during the summer of 2024, president Xi Jinping emphasised his focus on building on the reforms initiated in 1978. These reforms opened China's economy to market forces and world trade through privatisation of state-owned enterprises, a welcoming of foreign investments, the establishment of commercial banks, and free trade reforms. Despite this, many analysts expected the meeting to reveal more comprehensive measures to stimulate weak domestic demand, especially in the real estate sector. Instead of focusing on the real estate crisis, which has been one of the biggest driving factors of the economic downturn, Xi's speech was focused on promoting investments in advanced manufacturing and technological development, referred to as " new quality productive forces."

Despite hopes for a clearer direction towards consumption-driven growth, which several economists consider necessary for China's future, the plenum mainly focused on technology, self-sufficiency and innovation. Technological development was mentioned over 160 times, while the heavily pressured real estate sector was only mentioned four times. Measures were discussed to address the financial imbalances between the central government and the debt-ridden orovinces, as well as proposals to improve the Chinese welfare system. Despite these initiatives, the document was overall general. It was not made clear how these reforms will be implemented, which has led to continued concern about China's ability to achieve sustainable growth in the long term. This shows that China's government still sees technology and innovation as the most important tools for future growth, rather than a comprehensive reform of domestic consumption.

This technology-centred growth model is part of China's larger geopolitical strategy, where the country strives to reduce its dependence on the US while increasing its own global competitiveness in key industries such as electric vehicles, batteries and solar energy. State subsidies to these sectors have made China a dominant player in the world market. Although this has contributed to a record trade surplus, the question remains how sustainable this strategy will be in the long term. At the same time, the increased focus on exporting technological equipment means that tensions with the outside world may intensify further, especially

LOW CONSUMPTION IN CHINA

Household consumption, share of GDP, per cent



Sources: World Bank and Macrobond.

with the US and Europe, which have already imposed trade tariffs on Chinese products in the field of green technologies.

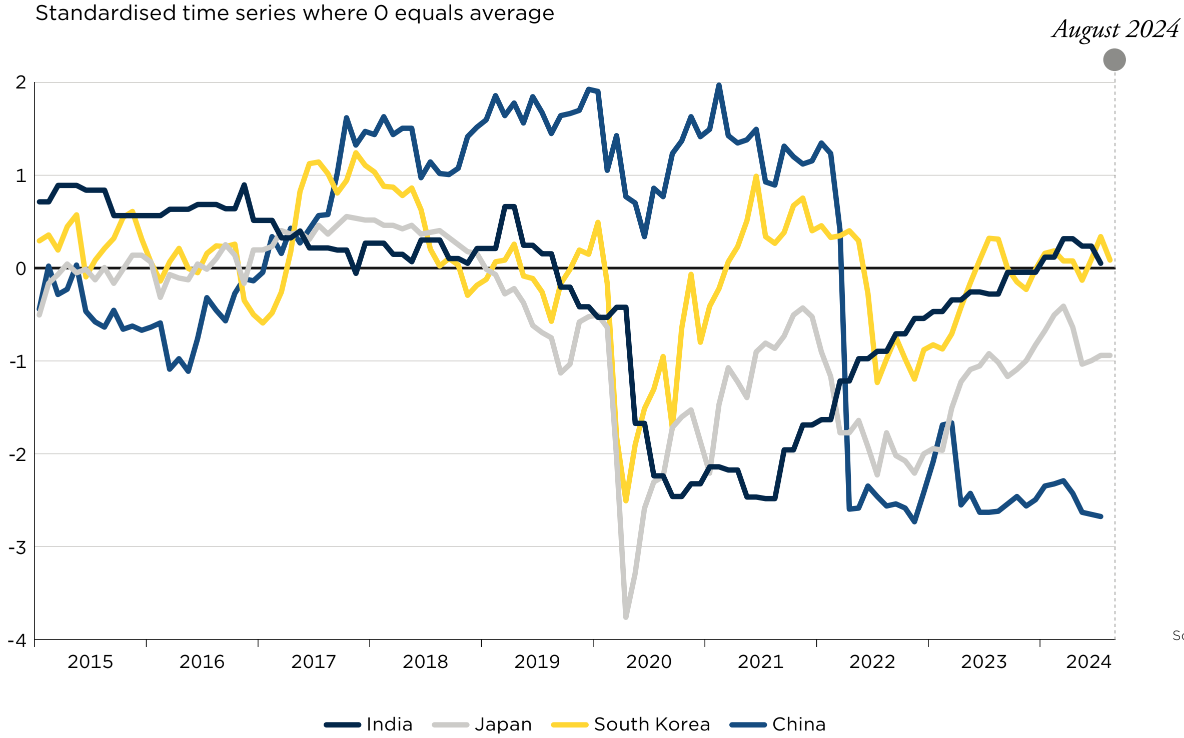
In all, China faces both short-term economic challenges with declining export growth and long-term structural challenges for transitioning to a more sustainable growth model. The Chinese economy will grow by 4.9 per cent in 2024 (which is in line with China's growth target of around 5 per cent) and then slow to 4.5 per cent in 2025 and 4.0 per cent in 2026.

STRONG GROWTH IN INDIA

India. The Indian economy has shown strong performance in recent years, and the country's future economic prospects remain positive – although some challenges remain including its dependence on energy imports and the difficulties of implementing national initiatives in the country's diverse regions. With the new coalition government that recently took office, India has continued to show its commitment to fiscal restraint, which was also evident in the latest budget presented in July. The budget prioritises

GLOOMY CONSUMERS

Standardised time series where 0 equals average



Source: Macrobond

investments in infrastructure, which strengthens the country's economic outlook in the long term. Private consumption slowed at the beginning of the year, partly driven by agriculture which was affected by heatwaves and an uneven start of the monsoon season, resulting in lower-than-expected production. This prompted calls for supporting households and consumption which did not materialise.

One of the risks associated with India has long been its sensitivity to inflation, as rising food and energy prices quickly impact the economy. As such, positive sentiment was felt during the summer when inflation fell to its lowest level in five years. However, the dramatic drop in inflation was largely driven by so-called base effects, meaning that inflation appears lower compared to a high level last year. Instead, it was revealed that pressure on food prices continues to affect the purchasing power of households. This was likely one of the arguments for why India's central bank chose to keep the policy rate unchanged with continued tightening of monetary policy. The bank's stance to hold back liquidity has now been maintained for 18 months, and there are no signs of a future rate cut at present.

Indian exports have been somewhat weaker than the outcomes from the first quarter of 2024 suggested, as growth clearly slowed later in the year. Exports of goods even fell for two consecutive months until July, with industrial goods showing signs of dampened demand.

Despite inflationary pressures, surprisingly weak exports, and tight monetary policy, India's economy is expected to show continued robust growth. For 2024, GDP growth is expected to hit 6.8 per cent, while the forecast for 2025 shows slightly higher growth of 7.0 per cent, mainly driven by public investments in infrastructure and continued strong consumption. In 2026, the momentum in the Indian economy, although still very strong, is expected to simmer with growth falling back to 6.7 per cent. The long-term outlook for the Indian economy is bright, but to maximise its growth potential, India needs to continue to develop its economic structures and strengthen its competitiveness in the global market. Among the long-term perspectives and structural factors that will shape India's future, infrastructure projects and digitalisation initiatives stand out as central elements. These are expected not only to improve efficiency and productivity in the domestic economy but also increase India's competitiveness in the global market. These efforts, along with growth in the services sector, which remains a driver for both domestic consumption and exports, will underpin long-term growth. Besides this, India's focus and investments in renewable energy and the transition to an economy that is less reliant on coal and oil is expected to strengthen the economy's resilience in the future. Finally, India's long-term success relative to China will depend on whether the country can leverage its enormous demographic advantage – the large, young population – which is expected to peak in the mid-2060s at just under 1.7 billion people, while China's population is expected to decline during the same period.

Japan. In August 2024, the Bank of Japan's (BoJ) interest rate hike contributed to dramatic market effects worldwide. After the BoJ raised the rate to 0.25 per cent as part of its gradual tightening, the Japanese Nikkei 225 index fell by 5.8 per cent in a single day, the largest drop in four years. The decline continued, and over two days, the market dropped more than 10 per cent, making it one of the most extensive stock market losses since 1987. The main reason for the sharp market reaction was the unwinding of the "yen carry

trade," where investors borrow money at low Japanese interest rates to invest in high-yielding assets abroad. When the BoJ raised the rate and the yen strengthened, many investors were forced to sell their assets globally to cover their positions, leading to extensive forced sales.

Considering the rapid recoveries in the stock market after the initial decline, these reactions can be seen as exaggerated. It was largely technical factors, such as automated sales, that exacerbated the situation. The long-term recovery of the market suggests that the initial panic did not fully reflect the true state of the Japanese economy.

Inflation has been a long-running issue for the BoJ. Despite the CPI index showing an increase in the summer, inflationary pressure is expected to ease somewhat in 2024. Wage increases, however, are believed to contribute to long-term inflationary pressure. The BoJ has continued on its path towards normalising its monetary policy, with another rate hike planned for the end of the year. The BoJ has assured that future rate hikes will be cautious, which helps reduce uncertainty about the country's economic future.

Exports continue to be a weak spot for the Japanese economy. While demand from the US and parts of Asia has remained relatively strong, exports to Europe performed poorly, particularly due to dampened demand in the eurozone. This negatively affects the country's trade balance and is one of the main obstacles to stronger growth. Expectations are that this trend will continue for the rest of the year, making the export market a remaining challenge for Japan's economic recovery.

After a negative start to the year, the Japanese economy grew by 0.7 per cent in the second quarter of 2024 compared to the previous quarter. The overall assessment of the Japanese economy is that it will continue to recover in the coming quarters. The total figure for 2024 is expected to reach a modest 0.1 per cent. Growth will pick up momentum in 2025 when GDP is expected to increase by 1.1 per cent, before slowing to 0.6 per cent in 2026.

South Korea. The South Korean economy is expected to see a gradual recovery over the next two years, but growth is likely to slow compared to previous years. After a period of robust export growth, mainly driven by semiconductors and other advanced technology, South Korea faces a more uncertain future regarding both domestic demand and external demand from its key trading partners.

South Korea is heavily dependent on its electronics industry, and more than 40 per cent of its electronics exports go to China and the US. Despite strong growth in the semiconductor industry due to AI development, geopolitical tensions between the US and China could negatively impact the sector. Many large South Korean companies have production in China, which increases their vulnerability to trade restrictions and other tensions between the two superpowers.

On the domestic side, household debt has become a growing concern for the South Korean economy. Household debt stands at about 94 per cent of GDP, one of the highest levels globally, and has continued to rise despite high interest rates. The government has introduced measures to boost housing supply, especially in Seoul, in an attempt to curb rising housing prices, but household debt could still limit private consumption. Increased interest payments and higher debt burdens could lead to reduced purchasing power among households, which in turn could negatively affect economic growth.

The South Korean central bank, the Bank of Korea, has so far been cautious about lowering the policy rate, despite expectations of a possible easing of monetary policy. Several members of the central bank's board are now reportedly seeing the possibility of a rate cut in the fourth quarter of 2024. A contributing reason to the cautious approach has been the risk that an early rate cut could lead to a further price escalation in the housing market, which could increase debt levels even further. Contradicting this assessment is the weak consumption, which would benefit from a more expansive monetary policy.

Exports will continue to be a growth driver, especially in the semiconductor sector, although the long-term sustainability of this growth is uncertain as there are indications that the semiconductor cycle has peaked. A continued recovery in investments, especially in the technology sector, could contribute to growth. With these factors in mind, the South Korean economy is expected to grow by 2.3 per cent in 2024 and at a slightly slower space in 2025 and 2026, when growth is expected to hit 2.1 per cent and 2.2 per cent, respectively.

SEOUL, SYDKOREA

NORTH AND SOUTH AMERICA

US economy heading towards soft landing

Continued sluggish performance in Canada

The Mexican economy slows down

TOWARDS NORMALITY IN THE US ECONOMY

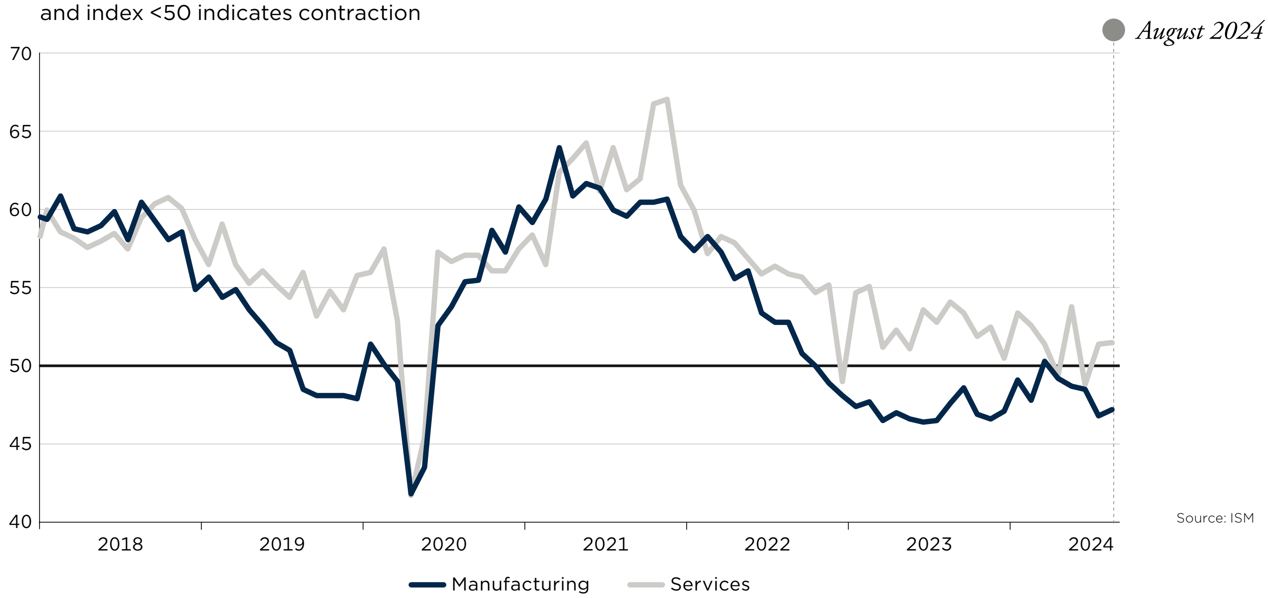
USA. The US economy performed surprisingly well in the first half of 2024 against the backdrop of continued robust private consumption and a solid pace of investments. The labour market continues to deliver new jobs, albeit at a slower pace. Unemployment fell back to 4.2 per cent in August after trending upwards from a historically low level of 3.4 percent in March 2023.

Inflation has fallen back during the year and stood at 2.5 per cent in August, still somewhat above the Federal Reserve's (Fed) inflation target of 2 per cent. Nevertheless, the Fed implemented a double rate cut of 50 basis points to the range of 4.75–5.00 per cent at its September meeting – the first cut since March 2020. Surveys indicate that the economy is more or less approaching normality, but also show a split development as the industrial sector continues to face difficulties while the services sector expands. The ISM Purchasing Managers' Index for manufacturing, where the normal level is set at 50, climbed back up slightly to 47.2 in August after a gradual decline during the summer. The index for the services sector rose slightly to 51.5 in the same month. In another survey, the S&P Purchasing Managers' Index, the index for manufacturing fell slightly to 47.9 in August while the services sector climbed to 55.7.

Other monthly indicators, such as the OECD's Business Confidence Index (BCI), show that confidence among businesses in the development of the US economy has bottomed out and jumped to just below 100, indicating a normal level. Consumer confidence is also on the rise after declining over the past six months: In the latest survey by the Conference Board in August, the index rose to 103.3, which is slightly above the normal level of 100. The highly regarded University of Michigan Consumer Sentiment

SERVICES SECTOR MORE OPTIMISTIC THAN MANUFACTURING

Purchasing Managers' Index for the US, index >50 indicates expansion and index <50 indicates contraction



Source: ISM

Index shows similar development.

The forecast for the US economy shows GDP growth of 2.5 per cent this year, driven by a slightly weakening but still strong labour market, solid growth in private consumption, and a rebound for investments. Falling inflation and an expected series of rate cuts from the Fed provide the conditions for continued strong domestic demand next year. The economy is thereby heading for a soft landing, meaning that the inflation target has been reached without the economy falling into recession. Growth is expected to hit 1.8 per cent in 2025, which is the growth rate that the Congressional Budget Office believes corresponds to the US economy's annual growth potential for the next five-year period. In 2026, the economy is expected to gain renewed strength as global demand picks up, resulting in 2.1 per cent growth.

Canada. The notable slowdown in the economy that began last autumn has continued during the first half of this year. Highly indebted and sensitive Canadian households are being squeezed by continued high, albeit falling, interest rates and a gradually weaker labour market. According to the Canada Mortgage and Housing Corporation, nearly half of the mortgages in Canada will need to be renewed in 2024 and 2025, many at higher interest rates. However, the economic outlook for households has improved thanks to the Bank of Canada's rate cuts totalling 75 basis points on three occasions in June, July, and September, to 4.25 per cent. Further cuts are expected in the autumn. Inflation is on the way down and stood at 2.5 per cent in July.

Canada's large oil and gas industry drew benefits from the completion in May of the Trans

THE US PRESIDENTIAL ELECTION IMPACTS THE ECONOMY

After one of the most eventful six months in modern US political history, the presidential election in November between vice president Kamala Harris and former president Donald Trump is drawing closer. At the time of writing, opinion polls reveal a neck-to-neck contest between the candidates. The outcome of the election is likely to be decided in the seven swing states of Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Wisconsin, all within reach for both Democrats and Republicans.

While the parties' campaigns are largely focused on questioning the suitability of the opposing candidate for the presidency, Harris and Trump have revealed few details about their economic policies. In the absence of further announcements, the economic alternatives can be assumed to stand between Bidenomics and MAGAnomics, which put simply means a choice between more or less government presence in the economy.

Harris, Biden's vice president, has been deeply involved in the administration's high-profile initiatives and legislation that have successfully passed through Congress, including a federal support package (American Rescue Plan), an infrastructure initiative (The Infrastructure Investment and Jobs Act), the new climate package Inflation Reduction Act (IRA), and a national initiative for the development and manufacturing of semiconductors, The CHIPS and Science Act. The new industrial policy has achieved some successes, such as Taiwanese TSMC's major investment in advanced semiconductor manufacturing in Arizona and South Korean Samsung's corresponding investment in Texas.

The high inflation and rising living costs of recent years have significantly contributed to Biden's low popularity ratings among American voters, as well as the weak confidence in the president's economic policy. Although the economy is performing well from a macroeconomic standpoint, Harris faces an uphill battle among voters as Biden's vice president.

Statements from Harris's campaign indicate that she supports much of Biden's policy, including the IRA. However, Harris wants to go further than Biden in supporting low- and middle-income earners by lowering taxes for families with children, reducing childcare costs, lowering prices for medications, penalising food companies that drive up food prices, introducing subsidies for first-time homebuyers, and stimulating the construction of cheaper housing with a goal of three million new homes in four years. The reforms are to be partially financed by higher taxes on the super-rich and corporations. Harris plans to raise the corporate tax rate from the current 21 per cent to 28 per cent, as well as the capital gains tax from 20 to 28 per cent. Newly started small businesses will instead receive a tax relief.

During his time as president, Trump pushed for tax cuts for both individuals and businesses, deregulation of primarily the energy and financial sectors, dismantling former president Obama's healthcare reform (unsuccessfully), a restrictive immigration policy, and higher tariffs on imports from abroad, especially for goods from China.

Statements from Trump indicate that in his plans for a future administration, he will expand the tax cuts his administration implemented in the major tax reform, the Tax Cut and Jobs Act of 2017. At that time, the corporate tax rate was lowered from 35 to 21 per cent. Now, Trump proposes a further reduction to 15 per cent. He wants the portion of the income tax cuts that automatically expires in 2025 to be made permanent. Trump also wants to introduce a 10 per cent tariff on most imported goods and a 60 per cent tariff on Chinese goods, scrap the IRA, and deport immigrants who lack residence permits.

In context of economic policy, Harris and Trump have only agreed on abolishing the tax on tips. Neither candidate has announced how they intend to handle the US's recurring large budget deficits and rising national debt, which amounts to just over 120 per cent of GDP.

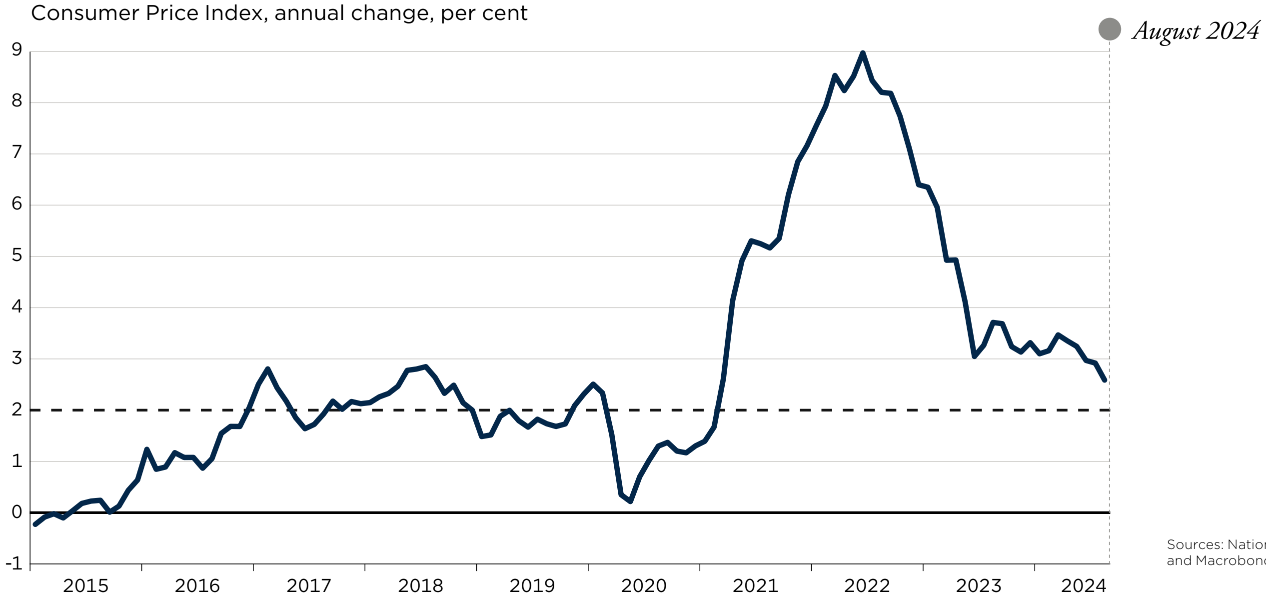
Mountain Pipeline, a controversial project for environmental reasons that will increase the country's export capacity for fossil fuels and facilitate diversification of exports to customers beyond the US market, primarily countries in Asia such as China and India. Overall, Canadian industrial production is stagnating. The S&P Purchasing Managers' Index for manufacturing rose slightly to 49.5 in the August survey, just below the normal level set at 50. The index for the services sector also climbed slightly to 47.8 but still signals gloomy sentiment about market prospects.

GDP growth is expected to reach a modest 0.9 per cent this year. The economy is expected to emerge from the mild recession following a gradual increase in private consumption and investments during the forecast period. A slow recovery in the economy is expected in 2025 with growth of 1.1 per cent, followed by accelerating growth of 2.2 per cent in 2026 as the inflation target is achieved, interest rates normalise, and external demand strengthens.

Mexico. The presidential election in June ended with a historic landslide victory for the left-wing party Morena's candidate Claudia Scheinbaum, who became Mexico's first female president when she succeeded outgoing president Andrés

INFLATION HAS FALLEN IN THE US

Consumer Price Index, annual change, per cent



Sources: National sources and Macrobond

Manuel López Obrador, known as AMLO, in September. Scheinbaum is expected to broadly continue AMLO's policies with investments in social programmes for low-income earners and modernisation of the country's infrastructure. Statistics for the first half of this year indicate a slowdown in the economy, after last year's GDP boost of 3.2 per cent. Inflation is on the way down, but households are being squeezed by food price increases, high interest rates, and tight credit conditions. The labour market remains strong with an unemployment rate of 2.9 per cent in July. The S&P Purchasing Managers' Index for manufacturing fell to 48.5 in August, the lowest level in two years.

The central bank Banxico surprised the market by following up the first policy rate cut in May with another cut of 25 basis points in August, to 10.75 per cent. Banxico has emphasised the importance of combating an ongoing wage and price spiral. However, inflation is on the way down and stood at 5.0 per cent in August.

The economy is expected to grow by 1.1 per cent this year, underpinned by moderate increases in private consumption and investments. Growth will then rise to 1.7 per cent in 2025 and 2.3 per cent in 2026, with very strong projected figures for exports as demand from the outside world, primarily the critical US market, picks up.

SOUTH AMERICA

Brazil. GDP in Brazil is expected to grow by 3.0 per cent this year, driven by a robust uptick in private consumption and investments. The labour market remains tight with an unemployment rate that fell to 6.8 per cent in July. The S&P Purchasing Managers' Index for manufacturing fell sharply to 50.4 in August, from 54.0 in July, while the index for the services sector noted a smaller decline to 54.2. Inflation is expected to average 4.3 per cent this year and shows no signs of any major drop, which is why Brazil's central bank is expected to keep the policy rate unchanged at 10.50 per cent well into next year. Growth in the economy is expected to fall back to 2.1 per cent in 2025 and 1.8 per cent in 2026.

VOLATILE COMMODITY PRICES PUT PRESSURE ON SOUTH AMERICA

Continued high, albeit declining, inflation and high interest rates are putting pressure on South American households, compounding both poverty and social tensions in the wake of uncertainty among the population about access to energy and reasonable food prices. The labour market has strengthened overall after the pandemic, but unemployment in several South American countries has been permanented at close to 10 per cent in fragmented national labour markets where many low-wage jobs and underemployment are common. Government support and subsidies to low-income families have not been able to prevent a third of the population from being classified as poor. Low productivity and limited access to capital dampen growth prospects for the continent's economies. Besides Brazil, Chile, Colombia, and Peru are part of a smaller group of countries showing robust economic performance. Conversely, Argentina is the economy showing worst performance in 2024, largely due to the tightening of fiscal policy initiated under the new political leadership. Nonetheless, consumption is expected to rise in 2025 and Argentina will, from having had a dampening impact on South American growth in 2024, instead contribute to stronger momentum in the region in 2025.

Just over 70 per cent of South America's exports consist of commodities, but the large variation in the countries' raw material resources means that the volatile prices seen in recent years for oil, gas, metals, and agricultural products will have different impacts in different countries.

South America's GDP is expected to rise by 2.1 per cent this year, after which growth is expected to accelerate to 2.8 per cent in 2025. In 2026, growth is expected to hit 2.7 per cent as the global economic environment gradually improves and as world trade gains strength, thereby increasing demand for commodities.

APPENDIX

MARKET	Swedish exports of goods, current prices			GDP growth, constant prices, %			Inflation, %
	Exports 2023, SEK Billion	Change 2022-2023, %	Share of Swedish exports 2023, %	2024f	2025f	2026f	2024f
Europe				*1,3*	*1,6*	*1,8*	
Sweden				0.7	2.4	3.2	3.0
Austria	22.6	14.6	1.1	-0.4	1.3	2.0	3.0
Czech Republic	19.5	9.9	0.9	1.0	2.9	3.5	2.3
Denmark	147.9	-1.0	7.0	1.6	1.9	2.9	1.7
Finland	144.9	-1.3	6.9	-0.2	2.0	1.9	1.7
France	94.1	17.8	4.5	1.2	1.0	1.5	2.1
Germany	221.1	8.6	10.5	0.0	0.7	1.4	2.1
Italy	62.5	3.0	3.0	0.8	1.0	0.9	1.0
Netherlands	113.7	17.5	5.4	0.5	1.4	1.6	3.4
Norway	196.0	-9.5	9.3	1.8	0.5	1.9	3.2
Poland	80.8	-0.1	3.8	3.3	3.6	3.5	3.9
Russia	9.5	-8.5	0.5	3.9	1.7	0.5	8.0
Spain	46.3	19.5	2.2	2.8	2.0	1.6	2.8
Türkiye	23.8	16.5	1.1	2.7	1.9	2.2	57.9
United Kingdom	114.0	2.9	5.4	1.1	1.7	1.8	2.6
North America				*2,3*	*1,7*	*2,1*	
Canada	26,0	76,1	1,2	0,9	1,1	2,2	2,5
Mexico	11,8	20,1	0,6	1,1	1,7	2,3	4,7
USA	188,5	2,0	9,0	2,5	1,8	2,1	3,0
South America				*2,1*	*2,8*	*2,7*	
Brazil	17,2	2,1	0,8	3,0	2,1	1,8	4,3
Chile	4,2	-2,8	0,2	2,5	2,9	2,4	4,0
Colombia	1,9	6,7	0,1	1,9	2,4	3,1	6,6
Asia and Oceania				*3,9*	*3,9*	*3,6*	
Australia	20.2	15.0	1.0	1.1	2.1	2.8	3.4
China	76.7	7.8	3.7	4.9	4.5	4.0	0.4
Hong Kong	3.7	27.1	0.2	3.1	2.1	2.2	1.8
India	18.9	9.5	0.9	6.8	7.0	6.7	4.8
Indonesia	6.3	28.5	0.3	5.1	4.9	5.1	2.6
Japan	22.0	-21.3	1.0	0.1	1.1	0.6	2.3
Malaysia	4.0	8.4	0.2	4.4	4.0	5.6	2.1
Philippines	1.7	9.4	0.1	5.7	5.9	6.0	3.4
Singapore	12.7	-12.7	0.6	2.5	2.8	3.6	2.2
South Korea	20.5	18.8	1.0	2.3	2.1	2.2	2.5
Taiwan	8.4	3.9	0.4	3.7	3.1	2.8	2.0
Thailand	7.2	-1.0	0.3	2.5	2.9	3.2	0.6
Vietnam	2.9	20.5	0.1	5.9	6.2	6.3	3.6
Middle East				*2,0*	*4,0*	*4,4*	
Saudi Arabia	13.8	3.6	0.7	1.4	5.1	5.9	1.4
United Arab Emirates	12.1	40.5	0.6	3.8	4.9	5.1	2.8
Africa				*2,8*	*3,4*	*3,5*	
Kenya	0,5	15,1	0,0	4,9	4,6	4,5	5,1
Morocco	2,9	-13,5	0,1	2,7	3,5	3,7	1,6
South Africa	10,8	-0,4	0,5	0,9	1,7	1,6	4,7

Sources: Oxford Economics, Statistics Sweden, Business Sweden

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