ENTERING THE GLOBAL SLOWDOWN

GLOBAL ECONOMIC OUTLOOK
September 2023

GEOPOLITICS BACK IN THE SPOTLIGHT

The global economy has entered a mild recession, though slightly delayed, which is expected to last well into next year. The monetary policy pursued by central banks in the form of interest rate hikes, is beginning to have a pronounced effect, as is the sustained high inflation. Both households and companies are now holding on tight to their savings. This means that consumption will fall in large parts of the world while investments will dampen.

Global growth is slowing down and is expected to reach 2 per cent next year, recovering the following year as growth rebounds to slightly below its 3 per cent trend level. This forecast is based on the assumption that inflation continues to fall back towards the 2 per cent target, and that central banks in the developed economies change tack and begin to ease monetary policy.

Nonetheless, the central banks are signaling unequivocally that they will not compromise on their principal task of ensuring that inflation targets are met. Additional interest rate hikes are likely to be announced during the autumn before it will be time to change tack. This will have a further tightening effect beyond the already implemented interest rate hikes, whose impact have not fully permeated the real economy.

It is mainly Europe that is expected to see tumbling markets, but North America and Asia are also losing momentum. The US economy has shown surprisingly strong performance and hopes of a soft landing remain, but growth is slowing considerably. Increased uncertainty regarding the Chinese economy, along with its inherent structural challenges, impacts the entire region. At the same time, India is a shining exception in Asia with its strong and resilient growth.

Geopolitics has re-emerged as the greatest threat to global economic development. Russia's war in Ukraine continues while the standoff between the two superpowers the US and China intensifies. The fact that the Chinese economy is showing signs of weakening is foreboding and increases the risk of a ramped up conflict with Taiwan. The great uncertainty surrounding these geopolitical events is hampering the global economy.

Sweden continues to battle high inflation and is simultaneously hit hard by the slowdown in large export markets such as Germany, which has been the growth engine in Europe.

Lena Sellgren
Chief Economist

BUSINESS SWEDEN

– Global slowdown has started
– Change of tack approaching for central banks
– Geopolitics is the greatest threat

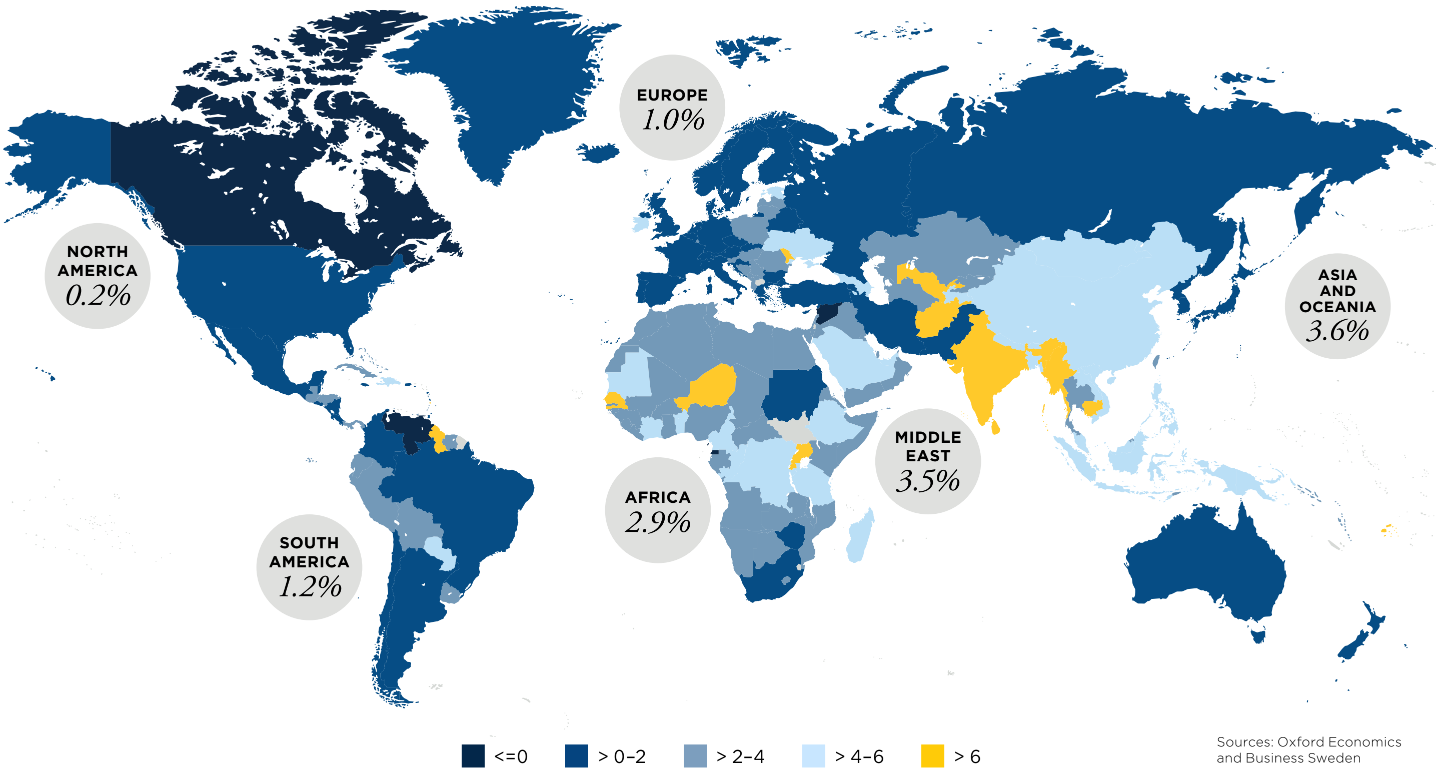
THE GLOBAL ECONOMY

During the first half of 2023, the global economy proved to be resilient and performed stronger than many had expected. This despite persistently high, albeit falling back, inflation and a continued rise in interest rates. A factor which has bolstered the global economy is the strong labour market, but there are signs of weakening on the horizon. This applies especially to the US and Europe, where the central banks' rapid interest rate hikes are beginning to have noticeable effects.

While a peak in interest rates is approaching, we will most likely see another increase during the autumn in line with efforts to bring inflation down towards the target. As a result, households will be increasingly hard hit and are not likely to further reduce their savings. It is also clear that investments are dampening.

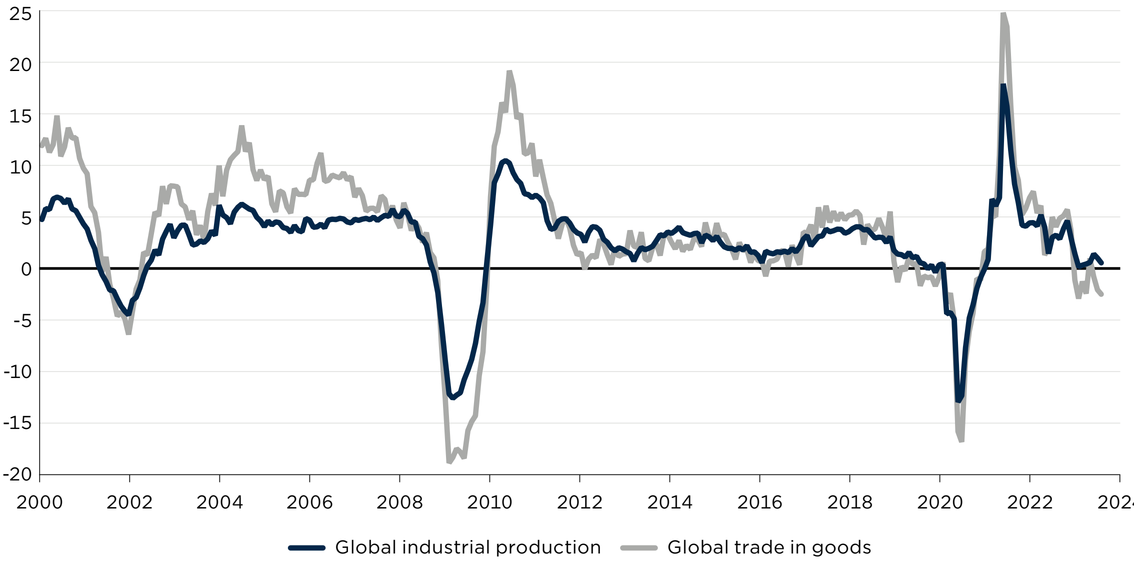
The slowdown in the global economy is confirmed by forward-looking indicators such as the consumer confidence and purchasing managers' indices, which reveal that more and more households and companies adopt a gloomy view of the future. The services sector is now also losing momentum. This means that the global slowdown, while somewhat delayed, has now begun and is expected to last well into next year. Given that inflation falls back towards the 2 per cent target, it may be possible to begin lowering interest rates around the middle of next year, but the prospects for doing so remain uncertain. The fact that the price of oil (Brent) has risen to over USD 90 per barrel since the summer is worrying and may contribute to an upward pressure on inflation. However, according to Oxford Economics' latest

GLOBAL MARKETS ENTER MILD RECESSION
GDP growth 2024, constant prices, annual change, per cent, forecast



Sources: Oxford Economics and Business Sweden

WORLD TRADE FALLS BUT INDUSTRIAL PRODUCTION STAYS AFLOAT
Percentage change, annual rate



Source: CPB World Trade Monitor

quarterly risk survey, the risk of a painful credit crunch has diminished. Instead, the geopolitical situation is highlighted as the biggest threat to global economic development. An additional worrying factor is the uncertainty surrounding developments in the Chinese economy.

Global GDP growth is expected to reach 2.5 per cent this year and 2.0 per cent next year. The global economy is then expected to recover and hit 2.9 per cent growth in 2025, just below the historical average of 3 per cent during the period 2015–2019.

WORLD TRADE DECLINES BUT PRODUCTION STAYS AFLOAT

The above diagram shows that the development of global trade in goods (fixed prices) and industrial production are closely aligned. Since the end of last year, world trade has fallen while industrial production has stayed afloat. And it is only to be expected that world trade slows down given that the global economy is now entering a recession. That said, the fact that world trade is losing steam to such an extent that we are seeing negative figures is a worrying development. If history repeats itself, this could be an indication that the global economy is about to face another crisis. Consider for example the dot-com bubble around the millennium shift, the global financial crisis of 2008 and the pandemic in 2020, when global trade fell sharply.

The fact that the wheels of global industrial production are still spinning is more likely to be an indicator of a global recession rather than an imminent crisis. At the same time, one shouldn't forget the impact of companies now stocking up on their inventory, which is a contributing factor to the continued pace of production. This year, global trade in goods is expected to fall by 1.5 per cent, primarily as a result of considerable weak development in Europe and in parts of Asia. Already by the end of this year, global trade volumes are expected to begin to recover and then grow by 2.3 per cent next year.

INFLATION CONTINUES TO FALL

Inflation is falling but remains at levels much too high, well above the inflation target of 2 per cent in most major developed economies. The most likely scenario is that CPIF inflation will drop significantly during the rest of the year, not least as a result of falling energy and food prices.
The fact that prices are rising after the summer

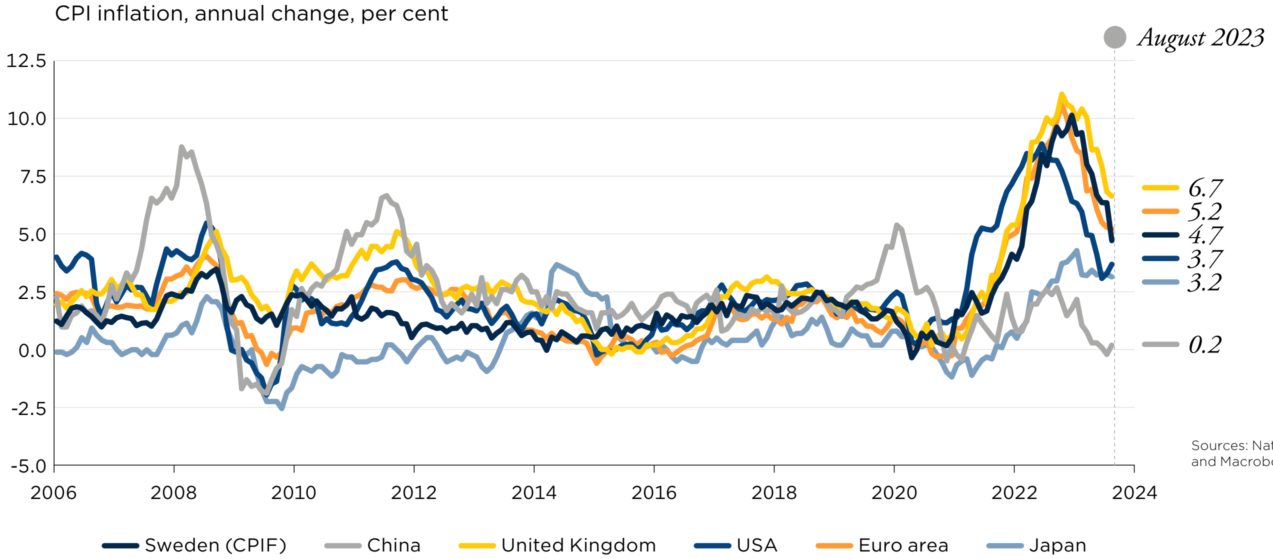
GDP GROWTH SLOWS DOWN
GDP growth, annual change, per cent, constant prices

REGION	2022	2023f	2024f	2025f	Share of global GDP, 2022 (%)
Global	**3.1**	**2.5**	**2.0**	**2.9**	**100.0**
Sweden	2.9	-0.9	0.5	2.5	0.7
Asia & Oceania	3.4	4.0	3.6	4.1	37.9
Europe	2.7	0.8	1.0	1.9	23.2
North America	2.3	2.0	0.2	1.8	28.4
South America	4.4	1.7	1.2	2.7	4.3
Africa	3.5	2.7	2.9	3.1	2.8
The Middle East	5.8	1.5	3.5	3.8	3.4

Sources: Oxford Economics and Business Sweden

INFLATION CONTINUES TO FALL – BUT FINAL PHASE IS CHALLENGING

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.

could, depending on future developments, cause further headaches for central banks as this may push up inflation.

Another challenge is the fact that core inflation, i.e. inflation excluding energy prices, which is also the measure used by central banks, is falling at a considerably slower pace.

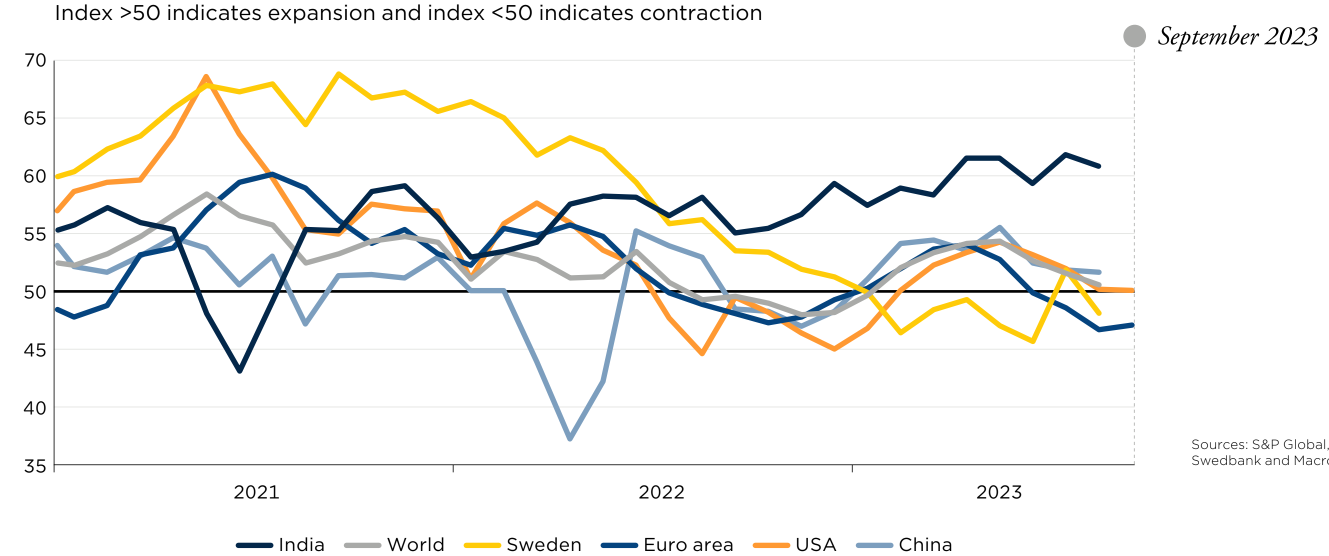
TIME FOR CENTRAL BANKS TO CHANGE TRACK?

The central banks are facing difficult decisions. While the decline in core inflation is sluggish, the economy is losing steam in the wake of the already implemented interest rate hikes, which are now coming into full effect. The central banks are stressing that they need to see the full impact of previous tightening measures before they consider additional rate hikes to ensure that inflation targets are met. The threshold for additional interest rate hikes has undoubtedly risen.

While we are approaching the peak hike cycle, it is unlikely that we will see a lowering of interest rates this year. Instead, most policy rates will most probably need to remain high for an extended period. Possible lowering of interest rates in the US, euro area and Sweden will not be considered until well into next year. Of these, the Federal Reserve (Fed) has come furthest in its

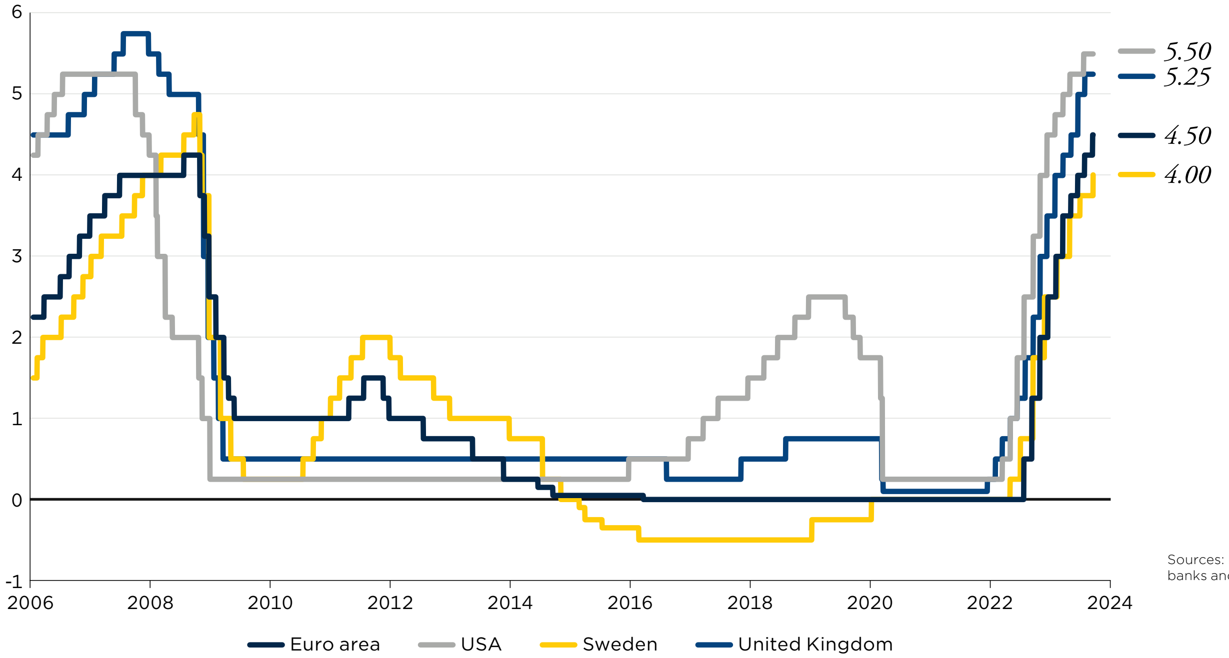
PURCHASING MANAGERS' INDEX FALLS BUT BRIGHT SPOTS REMAIN

Index >50 indicates expansion and index <50 indicates contraction



Sources: S&P Global, Swedbank and Macrobond

MONETARY POLICY FACING TOUGH DECISIONS – WHEN CAN CENTRAL BANKS CHANGE TRACK?
Key interest rate, per cent



Sources: National central banks and Macrobond

interest rate hike cycle and is therefore most likely to be the first to relieve the pressure.

When looking back, it is very unusual that central banks lower their key interest rates when the underlying core inflation is above the inflation target. However, decision makers have quickly softened monetary policy when growth is hit too hard, or when signs of economic or financial stress have become apparent.

NEW YORK CITY, USA

– Gloomy prospects in the near term
– Labour market softens decline in consumption
– Exports are hampered by global slowdown

SWEDEN'S ECONOMY AND EXPORTS

CLOUDS ARE GATHERING

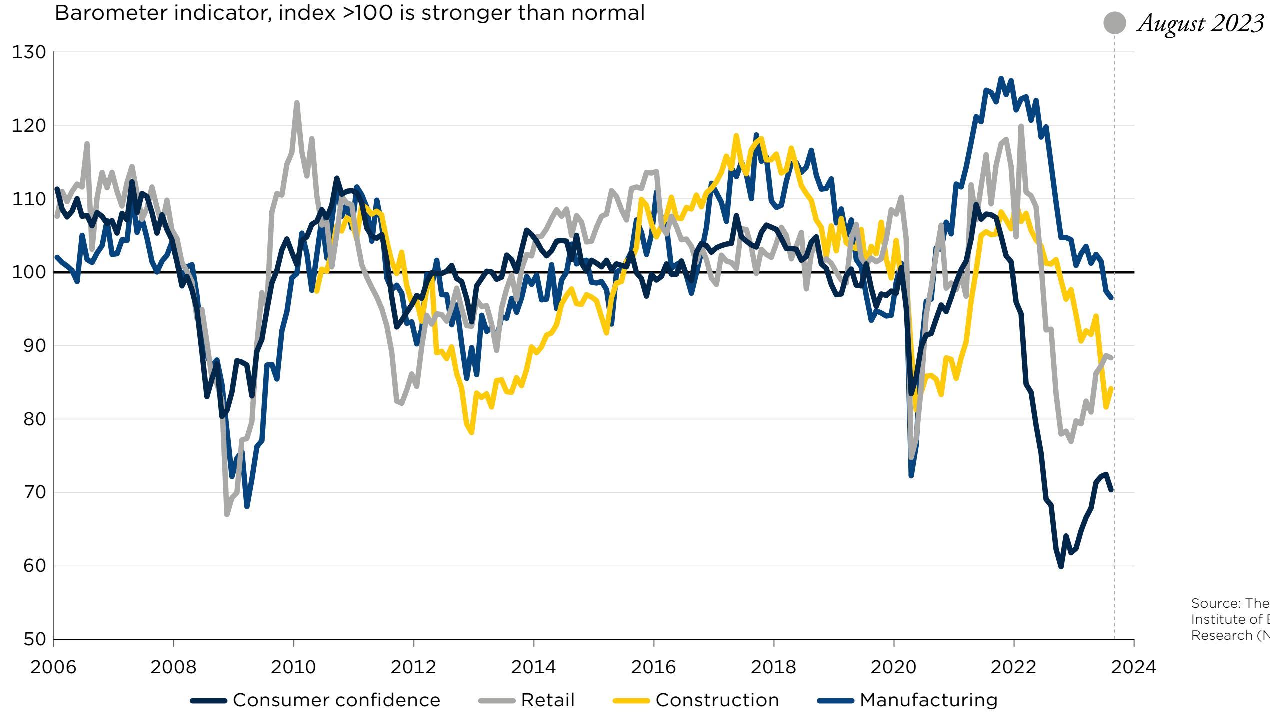
Following an unexpectedly strong start to the year, the Swedish economy has shown signs of a slowdown as GDP fell by 0.8 per cent during the second quarter compared to the same quarter last year. The decline was primarily due to negative results from net exports, inventory and private consumption. Forward-looking indicators have also shown signs of weakening prospects. The purchasing managers' index for both manufacturing and services fell below 50, which indicates a broad-based economic decline. The Economic Tendency Survey published by the National Institute of Economic Research (NIER) is well below the long-term average and is showing low confidence in all industries, particularly in the services sector and in retail.

Consumer confidence has also dropped to a low level. The Swedish economy is being impacted by several factors that, in all, will lead to dampened growth in the near term. Continued high inflation (albeit falling), negative real wages, the rapid effects of rising interest rates, falling housing investments and weaker demand from global markets will cause the Swedish economy to shrink this year.

Sweden's economy is expected to contract by 0.9 per cent in 2023 and continue to perform poorly a few months into next year, with an annual growth of 0.5 per cent in 2024. The economy is then expected to recover and grow by 2.5 per cent in 2025. This means that growth is not expected to return to pre-pandemic levels until 2025.

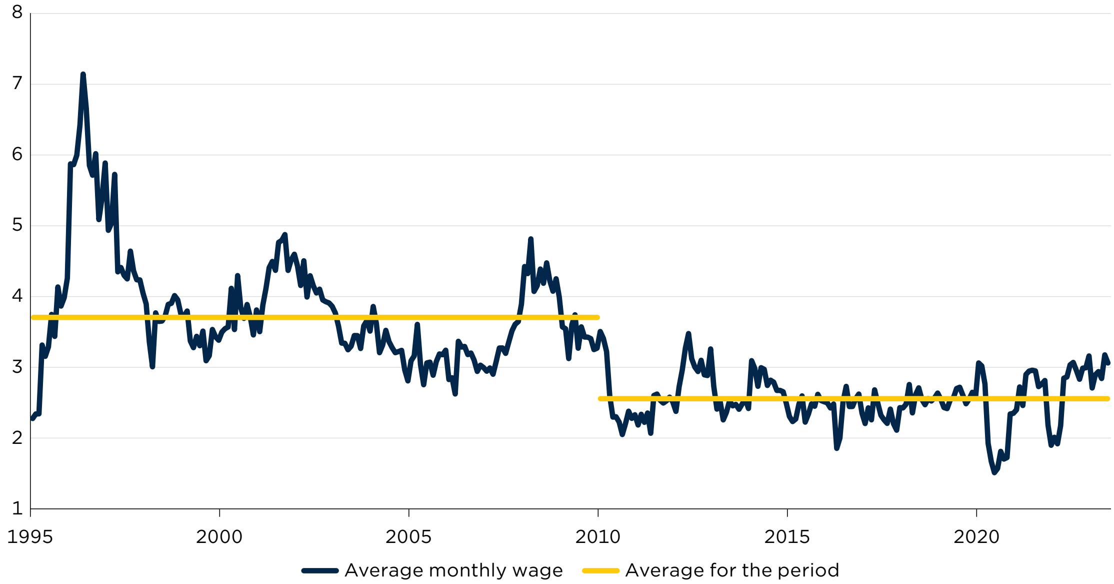
Household consumption is expected to fall by 2.2 per cent during 2023 and grow only marginally next year. Consumer spending will recover in 2025 and grow by 2 per cent. The construction sector is expected to suffer considerably from high interest rates and weak demand. Housing prices are likely to reach bottom levels soon. The commercial real

INDICATORS POINT TO BROAD DECLINE IN SWEDEN
Barometer indicator, index >100 is stronger than normal



Source: The National Institute of Economic Research (NIER)

SWEDISH WAGES HAVE STILL NOT TAKEN OFF
Annual change in average monthly wages, per cent



Source: Statistics Sweden

estate sector is facing an even bumpier road ahead as it generally has high levels of debt and is more vulnerable to interest rates, while domestic lending institutions would also be affected by a faltering real estate sector. By today's estimates, the risk of spill-over from the real estate sector to other areas of the economy is low.

When it comes to manufacturing, the increasingly gloomy view of order stocks, which are expected to decline in 2023, and the falling global demand is foreboding – as this indicates that industrial production will also decline this year.

LABOUR MARKET STAYS RESILIENT

The labour market is currently very tight while showing an unemployment rate of 7.7 per cent in July and record-high numbers of vacancies. But there are signs that the labour market is cooling down. This is partly reflected in Statistics Sweden's labour force survey which shows that the risk of unemployment has risen, and by the fact that redundancy notices have become more frequent in construction and other sectors.

The Swedish labour market is characterised by considerable shortages. If it is difficult to find employees, employers can see the already obtained staff as more valuable and that it is worth "hoarding" staff even though the demand situation at that specific moment and foreseeable future does not justify having so many employees. This phenomenon is known as "labour hoarding", and means that companies hang on to employees despite a decline in production or demand. There are several reasons why some companies decide to keep staff despite a slowdown, including the need to retain critical competences or avoiding the costs of future recruitment processes. In the long-term, however, this may lead to lower productivity or increased costs for companies. Additional consequences may arise in a protracted slowdown of the economy, or if businesses perform worse than expected, as the number of unemployed could soar rapidly when a large number of companies can no longer afford to keep their employees.

Although the economy has lost momentum, the strength and resilience of the labour market has been an important pillar of the economy this year. A strong labour market helps to cushion the fall in consumption at a time of high inflation and rising interest rates. But a tight labour market can also push up wages, which could potentially complicate the Riksbank's goal of curbing inflation. In the current situation, when minimising the impacts on inflation is essential, Sweden' wage formation built on collective bargaining – which is partly aimed at safeguarding Sweden's competitiveness – may prove to be very useful.

Over the past decade, Swedish wage growth has remained relatively stable with moderate development, compared to previous periods, despite strong growth in the Swedish economy (see above diagram). Through centralised agreements, the Swedish wage formation has helped to keep wage increases in check for coming years. The industry stakeholders, who set the so-called "marker", have agreed on a wage growth rate of 4.1 per cent for 2023 and 3.3 per cent for 2024. But there is still a risk of wage slippage beyond the agreed wage increases, which would push up wages and thereby prices.

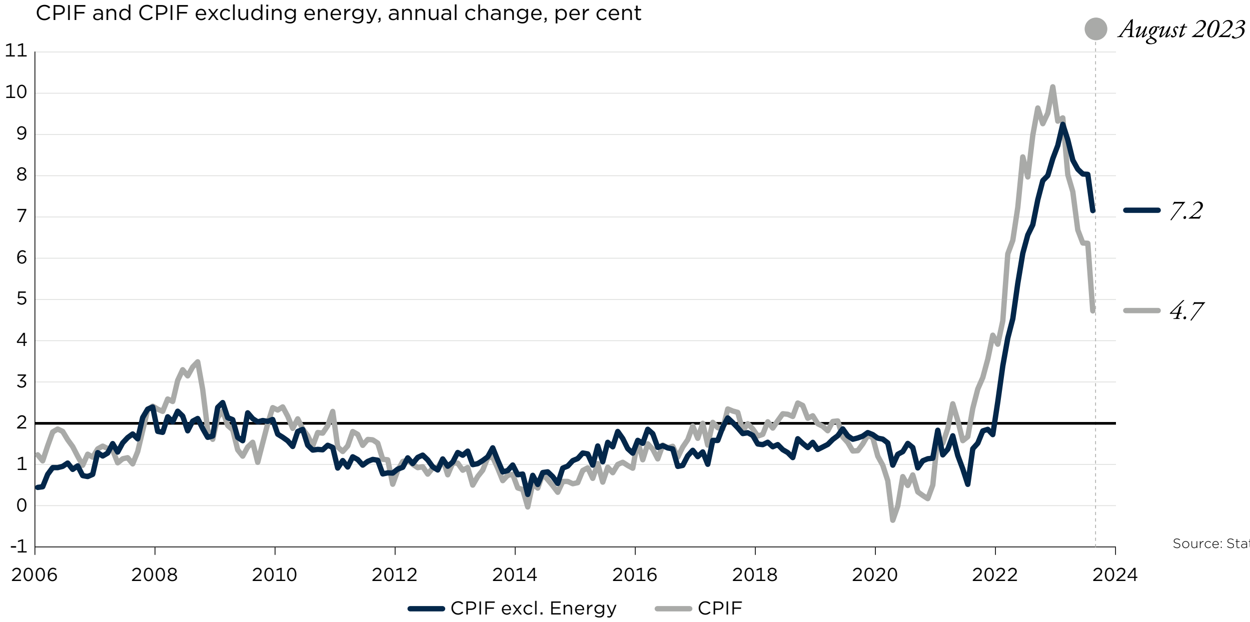
INFLATION FALLS BUT WE'RE NOT OVER THE FINISHING LINE

While there is a risk, albeit a small one, that the tight labour market could lead to growing demands for wage increases which put upward pressure on inflation, recent outcomes have meant falling inflation. In addition, the risk of wage slippage is falling as the labour market cools down.

In August, CPI inflation dropped to 7.5 per cent

PERSISTENT HIGH INFLATION

CPIF and CPIF excluding energy, annual change, per cent



Source: Statistics Sweden

in a decrease that was primarily driven by sharply falling electricity prices. While some areas of the economy have seen price increases, prices fell for many food items. According to the inflation metric CPIF (consumer price index with fixed interest) adopted by the Riksbank, inflation hit 4.7 per cent in August, which was slightly below the Riksbank's forecast of 4.8 per cent. However, CPIF excluding energy came in at 7.2 per cent, which was slightly higher than the Riksbank's forecast of 6.9 per cent.

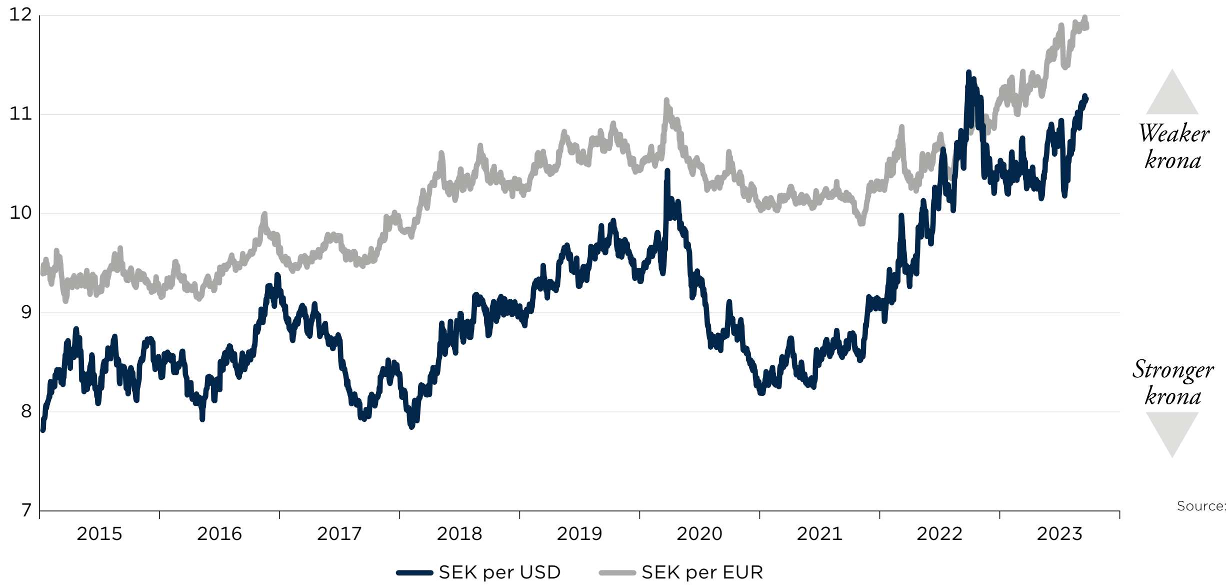
Although CPI inflation has peaked, there is a risk that core inflation becomes entrenched. The sluggish retreat of inflation coupled with growing concerns around the weak Swedish krona were key factors in the Riksbank's decision to continue its tightening of monetary policy.

RIKSBANK'S DILEMMA CONTINUES

Although a policy rate of 4.25 per cent is likely by the end of the year, indicating a rate hike of 25 basis points, additional hikes come with risks. Given the economy's current weak performance, decisions may be influenced by upcoming outcome data, particularly regarding the sluggishness of core inflation and exchange rate fluctuations. Much will depend on how inflation, inflation expectations and the exchange rate develop in the coming months. This will be weighed against the current, and increasing, weakness of the economy, as further interest rate hikes will put even greater financial pressure on already indebted households and on the real estate sector. Any cuts to the interest rate are not likely until mid-2024.

THE SWEDISH KRONA HAS WEAKENED

Amount of SEK per respective currency



Source: Macrobond

SWEDISH EXPORTS

Sweden's large export sector makes the economy heavily dependent on demand from the outside world. With demand now falling, especially in European markets which are the destination for around 70 per cent of Swedish exports, and geopolitical tensions escalate, the Swedish economy, through its exports, will inevitably suffer.

Business Sweden's Export Managers' Index (EMI) for the third quarter points to a worrying trend. Following a temporary uptick, the index has fallen back down and is now below the 50-mark which indicates increased pessimism among Swedish export companies. While companies are cautiously optimistic about current export sales, views of future prospects are not particularly promising. The most striking result of the third quarter survey was that the subindex for expected export demand from Asia and Oceania fell to its lowest level since the survey began in 2007. This should be weighed against the fact that the expected export demand from North and South America continues to rise, which is in line with further hard data showing that North and South America are doing relatively well.

When it comes to Sweden's trading partners, Europe has always been a main destination for Swedish exports – Europe is Sweden's home market. But the economic slowdown in Europe, not least in Germany, will hamper export growth in 2023. The close links that Sweden has with Europe means, nonetheless, that once European markets come out of recession, Swedish exports to Europe will rebound.

The overall picture for North America, another important trading partner, is somewhat more complicated. North America has stronger growth than Europe in 2023 but is expected to slow down in 2024. Besides this, the US has signalled that it wants to focus more on domestic manufacturing which may mean less imports than previously. As such, exports to North America are likely to show zero growth in 2023 and fall slightly in 2024 when the US economy slows down. In all likelihood, US imports of Swedish goods will normalise over time and given that North America's economic development as a whole will accelerate, we are likely to see a considerable upswing in exports to the region in 2025.

Sweden's trade relations with Asia are undergoing change as previously established trade routes are being reassessed while China tackles its faltering economy. Other markets are now having the opportunity to step into China's role in the region but it also means that exports to Asia will grow at a slow pace this year and through the beginning of 2024. When the situation in the region becomes more stable, exports will then return to strong growth.

Growth in total exports will be modest for 2023, well below the average of recent years. Goods exports are expected to show zero growth this year but recover slightly next year and then increase by 2.7 per cent in 2025, which is just below the average for the period 2000–2019. Services exports are expected to show positive growth throughout the forecast period, but although they are set to grow faster than exports of goods, the increased pace is significantly slower than the average growth rate over the past 20 years.

In all, Swedish exports are expected to recover from the low levels of 2023. The pace at which this happens will depend above all on how the European economy develops. However, it will be difficult to regain the growth levels that Swedish exports have had since the early 2000s.

SWEDISH EXPORTS
Annual change, per cent

	2022	2023f	2024f	2025f
Total exports	**7.1**	**0.6**	**1.0**	**2.6**
Export of goods	4.2	0.0	0.9	2.7
Export of services	14.7	2.0	1.2	2.5

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

Region	2023f	2024f	2025f	Share of Swedish exports, 2022 (%)
Europe	-0.1	0.6	2.4	73.2
Asia & Oceania	1.3	3.8	4.4	11.2
North America	0.0	-0.2	3.9	10.8
South America	0.2	-0.1	0.6	1.4
Africa	0.0	0.8	1.2	1.6
The Middle East	0.2	1.8	3.1	1.7

Sources: Oxford Economics and Business Sweden

– Economic slowdown with inflation still above target
– Germany dampens demand
– Interest rate hikes enter final phase

EUROPE

STAGNATION OR WORSE

Politically, the first half of 2023 in Europe was marked by the continuing war in Ukraine and concerns around an increasingly aggressive Russia. During the summer, the mounting consequences of climate change came home to roost, as the continent was hit with full force by extreme temperatures, forest fires, torrential rains and floods. A new immigration wave across the Mediterranean has put pressure on southern European countries, especially Italy.

High inflation in the aftermath of the Covid crisis, further fuelled by the consequences of the war, continues to dampen the purchasing power of European households. The cost of doing business have gone up. The interest rate hikes by the European Central Bank (ECB) have continued to relieve market pressures. For the export-driven German economy, with its many sub-suppliers in Central and Eastern Europe, China's economic decline in recent months has caused a setback.

At the same time, international container transport has normalised with freight prices now below pre-pandemic levels. Europe has fought its way out of last autumn's energy crisis, thanks to an unexpectedly rapid shift to liquefied natural gas imports, the restart of French nuclear reactors and a mild winter. And the EU's long-term budget and recovery package Next Generation EU is making large funds and loans available for member states to make investments in infrastructure and climate adaptation.

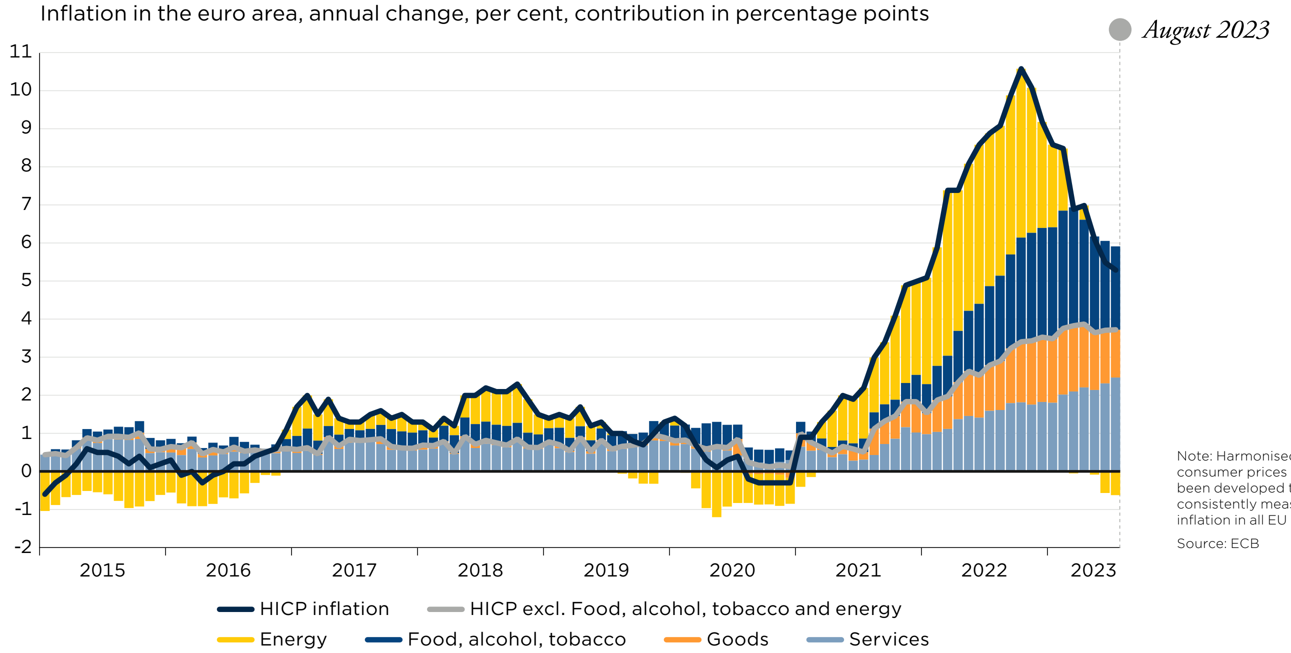
The labour market in Europe remains tight with record low unemployment. Wages are rising, but not enough to lift households' real incomes. For the services sector, the summer's record high levels of tourism played an important economic role, not least for southern European countries.

The ECB raised the policy rate by a further 25 basis points to 4.50 per cent at its September meeting, the latest in a series of rapid rate hikes that started in July 2022, when the interest rate was set at zero.

Standard & Poor's (S&P) composite purchasing managers' index for the euro area shows indications of an impending economic downturn. The index for manufacturing fell from last summer's recorded level around the 50-mark to 43.4 in September. The downward trend for the construction sector levelled off during the first half of this year

INFLATION IS CLEARLY FALLING

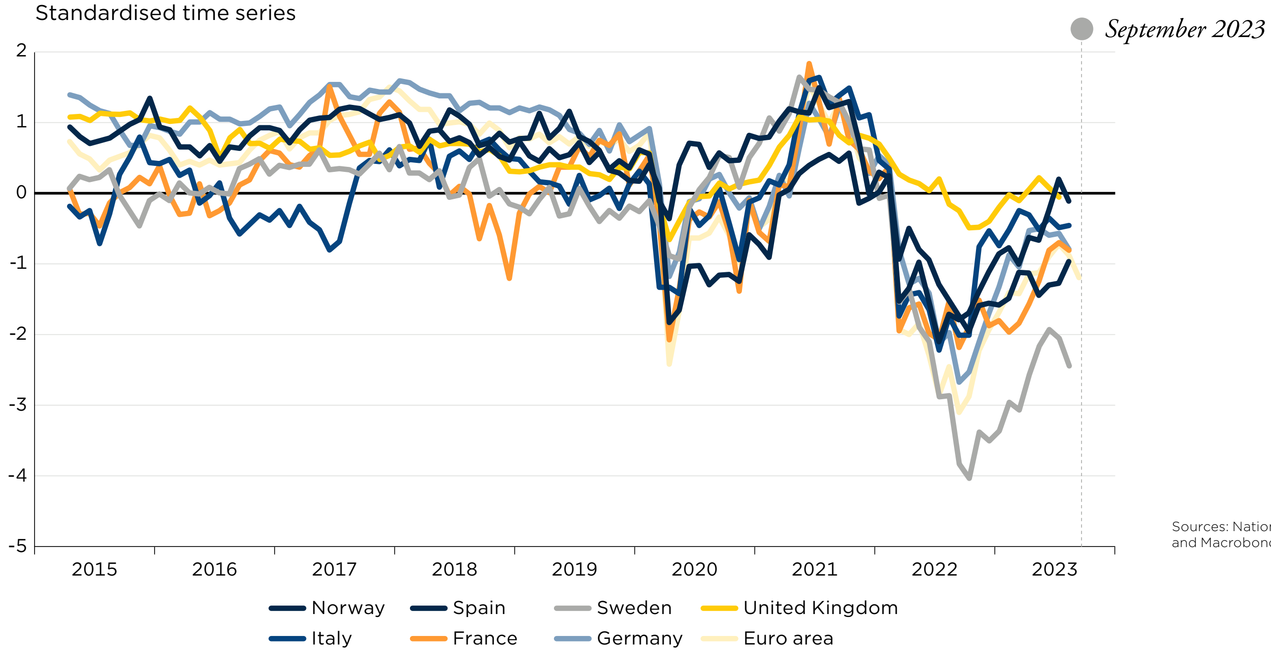
Inflation in the euro area, annual change, per cent, contribution in percentage points



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

Source: ECB

LOW CONSUMER CONFIDENCE THROUGHOUT EUROPE
Standardised time series



Sources: National sources and Macrobond

with the same low result the previous month. The decline for the services sector, in contrast, began as late as April this year, falling from its peak level 56.2 to 48.4 in August.

As such, Europe's economic landscape reveals a mix of challenges and progress in 2023. Most European countries are seeing an economic slowdown, with indices and indicators pointing to weak development in the next few years. Inflation remains persistently high across the markets but is falling from different levels at a different pace.

The impacts of the energy crisis are still being felt, with some countries taking steps to upgrade their energy systems and improve efficiency in energy use. Meanwhile, other countries are struggling to deal with the continued negative effects of a more expensive and volatile energy market. The risk of a new, larger energy crisis this coming winter is still considered to be small. Last year saw a major strategic shift to non-Russian suppliers of oil and gas. In August, the EU's gas reserves were already at 90 per cent storage capacity, well ahead of the scheduled date of 1 November.

GDP growth in Europe is expected to amount to just 0.8 per cent this year, amid broad-based economic stagnation, before rising slightly to 1.0 per cent in 2024, driven by a minor uptick in private consumption and investment. The forecast for 2025 points to continued expansion of the economy of 1.9 per cent, following a gradual increase in regional and global demand.

EUROPE WITHOUT ENGINE

Germany. Pessimism about the German economy, which weakened considerably in the first half of 2023, is spreading among businesses and households.

The energy crisis of last autumn and winter hit the manufacturing sector particularly hard and caused severe problems. While these have now been alleviated as energy prices have fallen, wages have jumped significantly since the crisis began, with a nominal increase exceeding 6 per cent this year and a forecast of just over 5 per cent next year. The prices of intermediate goods and services have risen sharply and the critical European gas price has stabilised at a level that is 50 per cent higher than before the energy crisis.

Impaired competitiveness and, at the same time, falling global demand are reflected in the gloomy outlook for industrial production and exports, which are expected to increase only marginally this year. The order books are thinner and new orders are coming in at a slower rate. Falling demand in the domestic market puts the construction sector in a particularly vulnerable position.

S&P's purchasing managers' index for manufacturing has continued to fall since the year began and hit 39.8 in the September survey. The index for the service sector also fell to just below the 50-mark in September. The reputable Ifo index points unequivocally to Germany's economy being in a slump, with a significant dampening of views among companies regarding both current developments and the future outlook. Companies are most pessimistic when looking ahead.

Falling real income for German households in the wake of high, albeit receding, inflation underpins the expected decline in private consumption this year, which is nevertheless cushioned by contributions from a continued robust labour market. However, a report from the European Commission points to the risks associated with the business sector's apparent high overemployment of staff, which could result in mass redundancies if the economy tumbles.

The German economy is expected to shrink by 0.4 per cent this year. From the middle of next year, a gradual recovery will begin resulting in sluggish 0.3 per cent growth in 2024 and 1.9 per cent in 2025, mainly as a result of a moderate upswing for private consumption and investments. The critical export sector will develop at a moderate pace in the next few years, in tandem with rising global demand.

France. The French economy performed better than expected in the first half of this year, particularly during the early summer. Weak private consumption and investments were offset by a boost in exports, which benefited from the tourism sector's strong performance at the start of the season. Households are still heavily burdened by inflation, which is expected to fall only marginally to 5 per cent for the full year. Rising interest rates and tighter lending conditions are putting further pressure on households and the housing market. But unemployment is only rising slowly in a labour market that remains robust.

Despite a few bright spots in the economy, consumers and businesses are overall pessimistic. The S&P's purchasing managers' index for manufacturing and services were 43.6 and 43.9, respectively, in September. While manufacturing dropped below the 50-mark since the beginning of the year, the index for the services sector hit a solid result of 54.6 as recently as April.

France's GDP growth for 2023 is expected to remain modest at 0.7 per cent due to stagnant private consumption and low levels of investment. On the brighter side, exports are showing solid performance. Following the restarting of nuclear reactors after extensive maintenance work, France has also regained its role as Europe's top electricity exporter. Next year, GDP growth is expected to fall back slightly to 0.5 per cent and then climb to 1.6 per cent in 2025, in a moderate broad-based economic recovery.

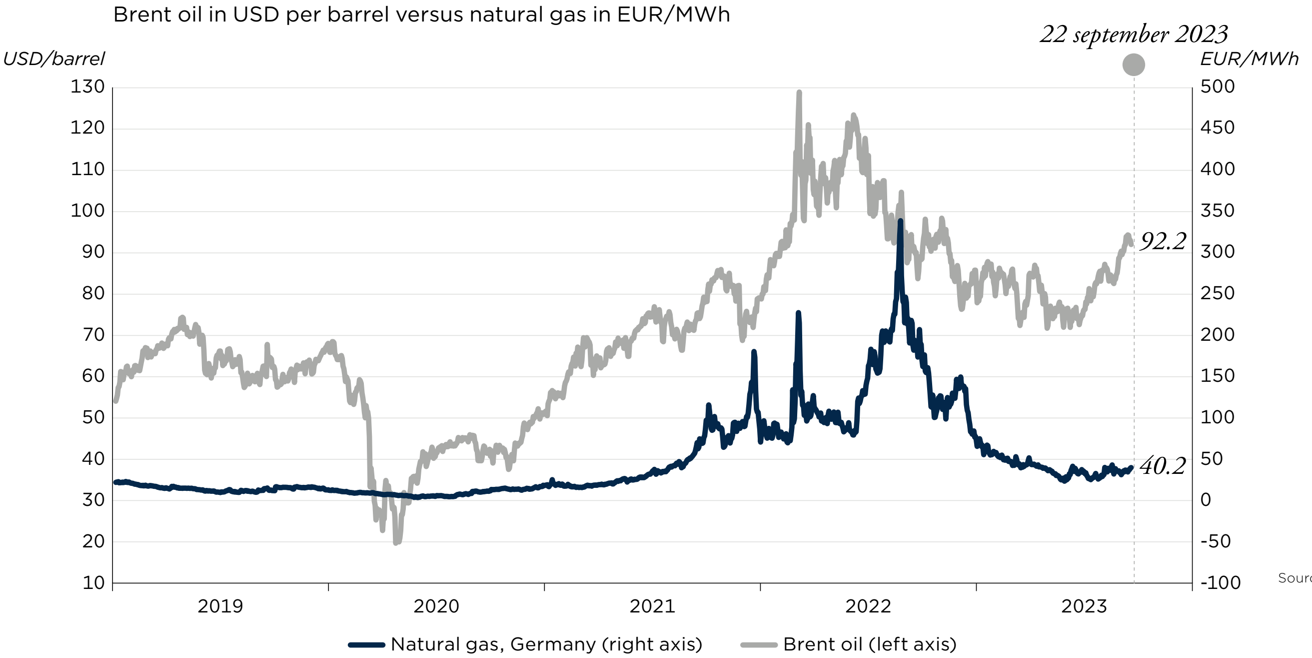
United Kingdom. The slowdown in the UK economy continues. GDP is expected to rise by no more than 0.5 per cent this year, in a broad-based slowdown from last year's strong growth figures, with moderate increases in private consumption and investments. The overall picture of a cooling economy is confirmed by the falling purchasing managers' index where manufacturing came in at 44.2 and services at 47.2 in September. Both industrial production and exports are expected to fall back during the year.

The labour market continues to perform well with just a moderate rise in unemployment. However, last spring was fraught with major strike actions in the NHS (National Health Service) and in education. Household real incomes have suffered a significant loss despite large wage increases, this as a result of the Bank of England's multiple interest rate hikes and inflation which exceeded 9 per cent in 2022 and is expected to settle at a still high 7.5 per cent this year.

Meanwhile, the negative economic impacts of Brexit have only become more apparent to the business community and the public, and a shift in public opinion has taken place in favour of *Remainers*. It is clear that any path to rejoining the EU is out of the question, given how the European issue has divided British society in recent years, but Prime Minister Sunak's government is consistently working to improve relations with the EU. The new set of arrangements agreed last year through the so-called *Windsor Framework*, which add to the trade agreement with the EU, as well as a recently signed agreement on the financial sector are two concrete examples.

The slowdown in the UK economy is forecast to continue next year with a modest GDP growth of 0.4 per cent. The recovery will not start until 2025 when the economy is expected to expand by 1.5 per cent.

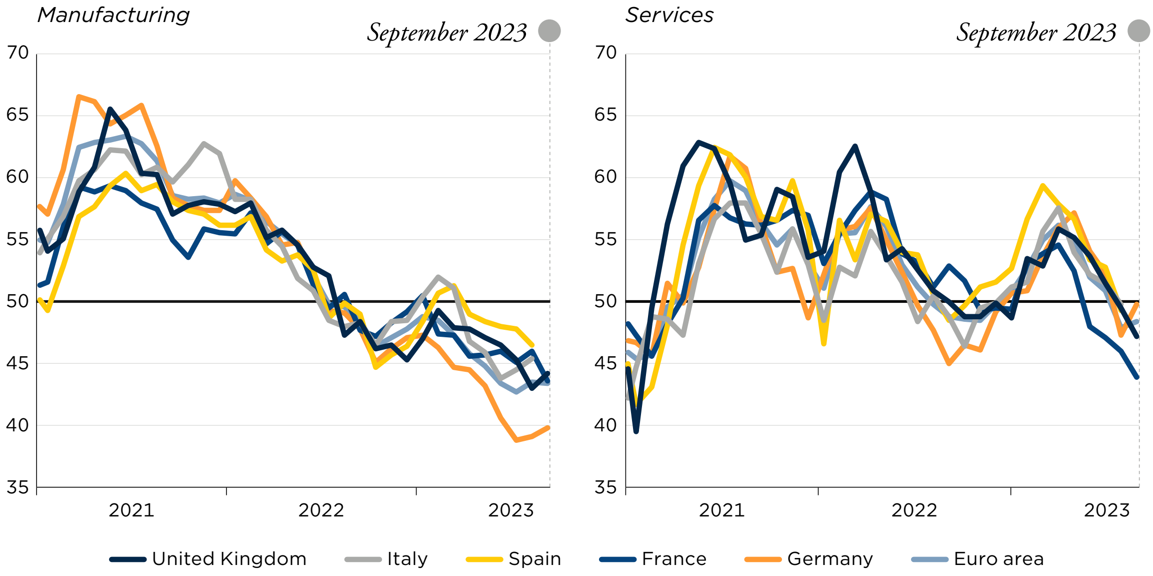
ENERGY PRICES ARE LOWER THAN LAST WINTER – BUT HIGHER THAN BEFORE
Brent oil in USD per barrel versus natural gas in EUR/MWh



Source: Macrobond

CLEAR SLOWDOWN IN EUROPE'S BUSINESS SECTOR

Purchasing managers' index in manufacturing and services, index >50 indicates expansion and index <50 indicates contraction



Sources: S&P Global, Macrobond

Italy. The forecast for the Italian economy in 2023 shows moderate expansion 0.7 per cent, with low growth for private consumption and investments. Exports are also expected to increase slightly as exports of services make a substantial contribution, boosted by a record summer for tourism.

Households are struggling with continued high, albeit falling, inflation and the effects of the ECB's interest rate hikes. The labour market has lost momentum and unemployment is on the rise, while industrial production is falling back. S&P's purchasing managers' index for manufacturing rebounded slightly to 45.4 in August, still a low result, while the index for services fell just below the 50-mark.

Barely a year after Prime Minister Meloni's right-wing government was formed Italy is still, contrary to what many observers expected, on good terms with the EU. The challenge now facing the government is how to allocate the EUR 192 billion in funds and loans granted within the framework of the recovery plan Next Generation EU until 2026 in a way that is acceptable to the European Commission. Italy's plan to use the funds for investments and reforms would, according to the Commission, boost the country's GDP growth by an extra 1.5–2.5 per cent during the period. But several regions, especially in southern Italy where needs are most dire, have proven to have lacking administration and other capabilities to implement the planned investments.

The GDP forecast for 2024 is 0.6 per cent growth with no more than a few bright spots in the economy's performance. A minor uptick in private consumption and investments coupled with a solid increase in exports will boost growth to 1.2 per cent in 2025.

Spain. The Spanish economy continues to perform significantly better than the EU average, thanks in large part to a rapid fall in inflation to 2.6 per cent in August and a strong services sector. As in other European countries around the Mediterranean, tourism hit record levels during the spring and summer.

Nonetheless, a cooling of the economy has begun which will accelerate as the autumn progresses, against the backdrop of a slowdown in the services sector and an uptick in unemployment now that the summer season is over. S&P's purchasing managers' index for services fell to just below the 50-mark in the August survey, while the index for manufacturing landed at 46.5.

But the economy is still showing a degree of momentum, partly unpinned by the allocation to Spain of EUR 140 billion in funds and loans from the Next Generation EU recovery fund until 2026. However, the major increase in investments will not occur until 2025.

The growth forecast for the Spanish economy is positive with an expected expansion of 2.2 per cent this year, 1.3 per cent in 2024 and 1.9 per cent in 2025.

Spain has been in a political no-man's land since the election on 23 July, when Prime Minister Sánchez's Socialist Party and the conservative opposition *Partido Popular* (PP) each won a third of the seats in parliament. The formation of a new government is made more complicated by the fact that the rest of the seats went to fringe parties as well as the Basque and Catalan independence parties.

HIGH INFLATION IN THE EAST

Russia. Despite the huge costs of Russia's war of aggression in Ukraine and a massive exodus of foreign companies, the Russian economy is expected to grow by 2.4 per cent this year, driven by a major upswing in private and government consumption. Inflation is predicted to fall back to an annual average of just over 5 per cent.

It should be added that the prerequisites for analysing developments in the Russian war economy are limited. The treasury is benefiting from an oil price (Brent) that has risen to over USD 90 per barrel since the summer, but it is also well known that Russia is being forced to offer reduced prices for oil and gas to its new main customers in China and India. The West's economic sanctions have so far not had the intended effect as Russia has been able to import essential intermediate goods through friendly transit markets neighbouring the country.

Russia's GDP is expected to rise by 1.2 per cent next year and 1.0 per cent in 2025, driven by private consumption which grows at a gradually slower pace. But there is considerable uncertainty surrounding the forecast.

Turkey. The economy is expected to grow by 3.0 per cent this year following a near double-digit rise in private consumption and a strong pace of investments. But exports are plummeting at the same time as imports are soaring.

Inflation is spiking once again due to the continued weakening of the Turkish lira and is expected to rise to just over 50 per cent for the full year. In a shock move, the central bank raised the policy rate from 17.5 per cent to 25 per cent at the executive committee meeting in August, and to 30 per cent in September. Despite the central bank's interventions, inflation is expected to peak at 70 per cent in the middle of next year, before falling back.

Demand in the economy has been kept afloat by large wage increases and credit expansion. The government raised the country's minimum wage by 55 per cent for 2023 and by 45 per cent for government employees. But a steep fall in private consumption contributes to a slowdown in growth to 0.7 per cent next year. A recovery in domestic demand and positive export development are expected to lift GDP by 2.0 per cent in 2025.

Central and Eastern Europe. The forecast for Poland is weak GDP growth of 0.4 per cent this year, mainly due to falling private consumption. Rising prices are hitting Polish households, with inflation expected to come in at just over 12 per cent for the full year. The country's dependence on Germany's faltering export market is laid bare as industrial production falls sharply.

Significant wage rises in a strong labour market, rapidly falling inflation and an upswing in global demand are expected to pave the way for 2.0 per cent growth in 2024 and 3.4 per cent in 2025. But great uncertainty remains around Poland's political path as the ruling national conservative party *PiS* (Law and Justice) face the centrist party *PO* (The Civic Platform) in the parliamentary election on 15 October this year. The current government has a tense relationship with Brussels, which has blocked Poland's access to some EU aid, demanding that the country end its politicisation of the judiciary and other measures that are putting society on an increasingly illiberal path.

GDP in the previously fast-growing Hungary is expected to shrink by 0.8 per cent this year, in the wake of falling private consumption and investments. The central bank's interest rate hikes have so far been unsuccessful in beating inflation, which is expected to hit around 18 per cent for the full year. As in Poland, Hungary's dependence on the faltering European market, and Germany in particular, is revealed by a sharp fall in industrial production.

With falling inflation and a strengthening of real household incomes, coupled with a considerably increased pace of investments, a recovery in the Hungarian economy will begin next year. GDP growth is expected to hit 2.6 per cent in 2024 and 3.3 per cent in 2025.

Economic development in the Czech Republic is falling back this year, with a growth forecast of -0.3 per cent. An expected normalisation of inflation from high levels to below 2 per cent will contribute to a boost in private consumption and investments, driving GDP expansion of 0.8 per cent next year and 2.8 per cent in 2025.

DENMARK A WINNER

The Nordic countries. The Swedish economy is expected to shrink by 0.9 per cent in 2023. Consumption is falling under the pressure of persistently high inflation, falling real incomes and the Riksbank's rapid interest rate hikes which come as a hard blow to interest-sensitive Swedish households, for a detailed analysis see chapter *Sweden's economy and exports*.

Finland's forecast shows weak growth of 0.3 per cent this year, with stagnant private consumption and a large drop in investments, mainly as a result of the slowdown in residential construction. Next year, a modest recovery will begin and push up growth to 0.8 per cent in 2024 and 1.3 per cent in 2025.

Denmark is the clear winner among the Nordic countries. Despite stagnant private consumption and a large drop in investments, growth is expected to reach 1.6 per cent this year. A contributing factor is the advances of the pharmaceutical company Novo Nordisk, whose new weight loss drug has turned into a global success and has led to a market value that exceeds the combined value of the 10 largest companies on the Stockholm Stock Exchange. The company will contribute to a near double-digit boost for industrial production this year and a significant increase in exports. The Danish economy is expected to strengthen further during 2024 and 2025 with growth figures of 1.5 and 3.2 per cent respectively.

Norway's economy is expected to grow by 1.1 per cent this year despite a fall in private consumption and investments. The country's critical off-shore industry benefits from the rising oil price of recent months and Europe's strategic shift of gas purchasing away from Russia to new suppliers. The forecast shows a weak rise in GDP next year of 0.4 per cent followed by 1.6 per cent growth in 2025.

– Asia loses steam
– China faces major structural challenges
– India takes the spotlight

ASIA

At the start of the year, the economic outlook for Asia was looking bright as China's reopening and the solid performance of several countries in the region ignited hopes of a new period of growth. But already by the middle of the year, the figures were painting a different picture altogether with forecast indicators pointing to slowing economic momentum. Among Asia's many economies, China has borne the brunt of the negative headlines as weak indicators coupled with dormant structural weaknesses have revealed major challenges. These will not only affect the Chinese economy for a long time to come, but are likely to spread to the entire region and the global economy.

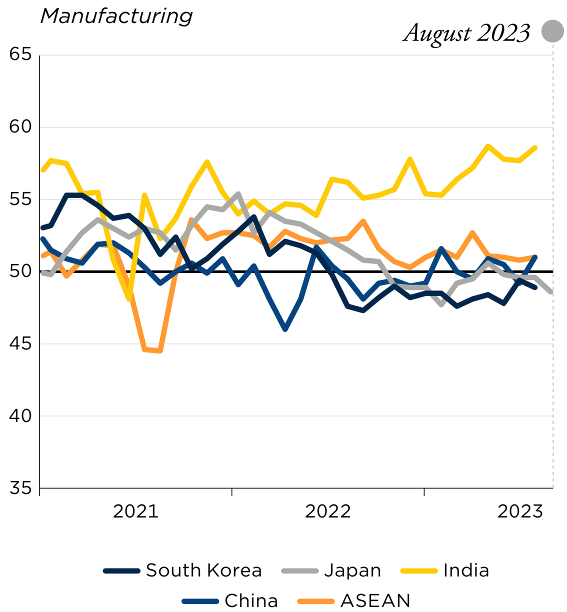
At the same time, other Asian countries performed surprisingly well, among them India, Indonesia and Malaysia who all revealed strong figures, with Indonesia and Malaysia gaining ground from energy exports. India has not only demonstrated strong results over the past year but also flexed new structural strengths that in the long run may enable the country to challenge China's role as the region's growth engine.

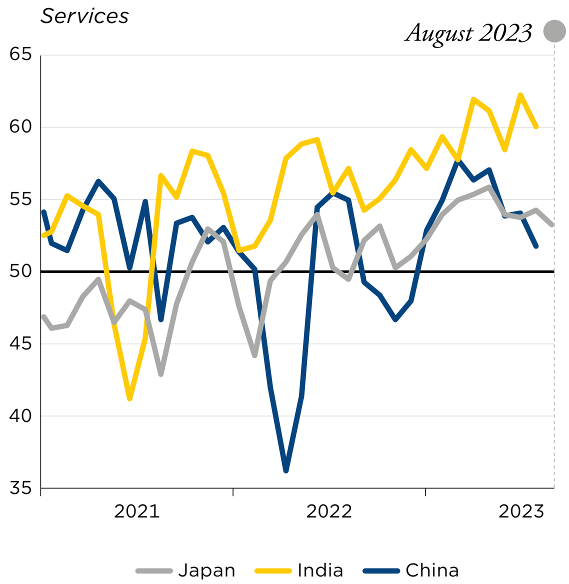
The ongoing trade war between the US and China, which is expected to continue for the foreseeable future, will have a major impact on the region. Besides this, the overall slowdown in the world economy will likely reduce global demand which will affect the exporting economies of Asia.

Another challenge for the region is rising food and energy prices, which hit both businesses and consumers and, in addition, may hamper manoeuvrability in terms of monetary policy, as the region's central banks may have to choose between supporting growth or fighting resurgent inflation. In other parts of the region the opposite dilemma may arise, with China occasionally suffering from deflation, i.e. falling prices, as a result of falling demand, which also has a negative impact on growth.

DIVIDED VIEWS OF ASIA'S BUSINESS SECTOR

Purchasing managers' index in manufacturing and services,
index >50 indicates expansion and index <50 indicates contraction





Sources: S&P Global, Macrobond

TRADE IN ASIA

Trade has always played a key role in Asia's development and particularly so in East Asia. Economies such as South Korea and Japan have reached high-income status thanks to their export-oriented development strategies. Today, East Asia's emerging economies account for 17 per cent of the world's total trade in goods and services. China alone accounts for just over 15 per cent. With an average trade ratio corresponding to 105 per cent of GDP, these economies conduct more cross-border trade than Latin America (73 per cent), South Asia (61 per cent) and Africa (73 per cent). They are outperformed only by the EU, the world's most integrated trade block, which has a trade-to-GDP ratio of 138 per cent.

In addition to East Asia's growing role in global trade, trade within the region, or intraregional trade, has increased significantly over the past twenty years. The increase in this intra-regional trade accounted for over half of the total export growth in East Asia over the past decade. Exports to the EU, Japan and the US accounted for approximately 30 per cent. Despite major economic disruptions in 2020 and 2021, intra-regional trade subsequently reached its highest level since 1990, accounting for 40 per cent of the region's total trade.

When it comes to the main drivers of this intra-regional trade in East Asia, it is clear that an expansive industrial sector has played a key role, a development which reflected the rise of global value chains featuring specialised production methods and a wide geographical distribution of production processes. The result was a marked increase in trade in intermediate goods within Asia where semiconductors and other technology components are typical examples. These were produced in high-wage economies such as Japan, South Korea and Taiwan and then shipped to low-wage economies such as Malaysia and China – and recently Vietnam – for final assembly. Finished end products such as TVs, computers and mobile phones were then sent on to markets in the US, Europe and Japan.

While Asia's trade growth remains strong, challenges are mounting. Despite a solid recovery in 2021, trade lost momentum in 2022. Following a temporary upswing in the beginning of 2023, export growth is now also pointing downward again. Tighter monetary policy in Europe and North America is a growing risk as it dampens external demand, which could put pressure on Asia's exports.

China. As China reopened its economy at the start of the year following three years of pandemic lockdowns, consumption increased markedly. But the upswing was derailed by the second quarter which resulted in considerably weaker GDP growth than expected. Several forward-looking indicators fell back during the summer and concerns are growing around the faltering real estate sector and falling prices.

Nonetheless, the latest data and indicators for the Chinese economy signal that growth could pick up speed again. The trade balance has improved and prices for goods have stabilised. Lending is on the rise again, especially in the private sector, which may be a consequence of the Chinese central bank (PBOC) and its decision to launch support measures, including a lowered one-year lending rate.

To ensure that enough cash remains in circulation, and to meet expected needs going forward, the central bank has also made it easier for banks to lend money. However, it seems that households are still hesitant to take out loans to buy property, which could be a sign that the real estate market is still unstable. The measures taken to prop up the real estate sector have only recently come into force, whether they are successful is too early to tell. Some form of recovery, at least, in the Chinese economy can be expected as the government and central bank take action.

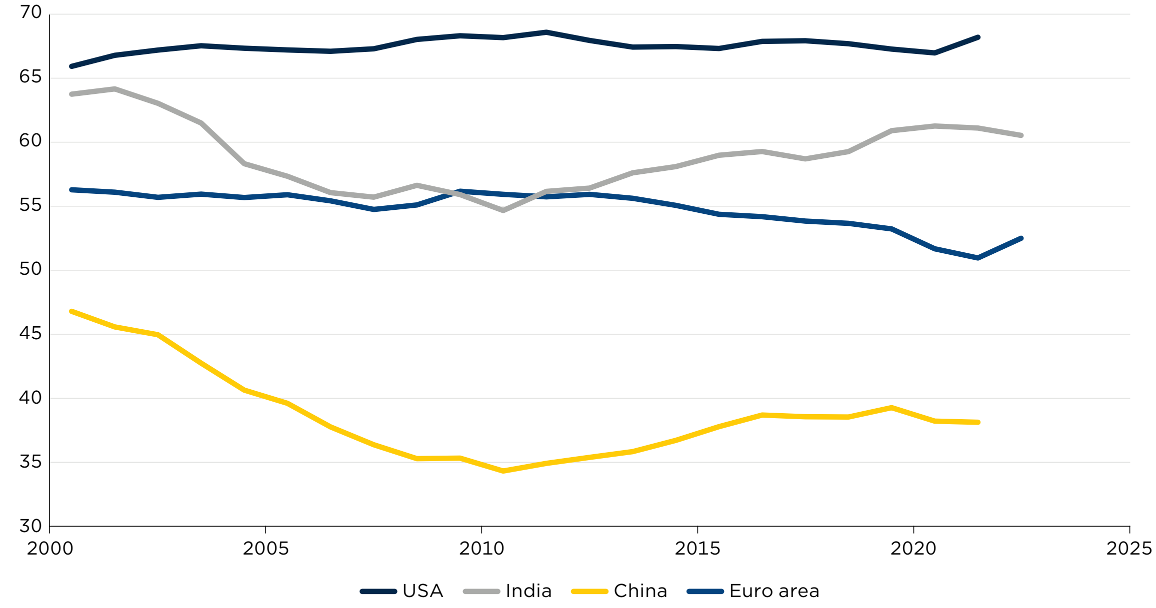
Although both exports and the industrial sector performed better than expected in August, investments were still dampened. A plausible reason is that the major challenges facing the real estate sector and the overall difficulty in assessing the current performance of the Chinese economy has fuelled uncertainty among investors.

The Chinese economy is not only facing short-term challenges. In the slightly longer term, structural problems and geopolitical challenges limit growth. A central dilemma is that the Chinese economy has found it hard to transform into a more consumption-driven economy, despite the long-standing awareness around this need. Relative to other countries, including emerging markets such as India, the share of GDP made up of household consumption is remarkably small (see diagram on next page).

While China has flourished into a global manufacturing giant where investments have mainly flowed into infrastructure and housing, domestic consumption has lagged behind. This limits the country's ability to increasingly rely on domestic demand as demand from the outside world decreases. Transitioning to a consumption-led growth model is most likely the only viable path

HOUSEHOLD CONSUMPTION IN CHINA HAS ALWAYS BEEN LOW

Diagram showing household consumption as share of GDP, per cent



Sources: World Bank and Macrobond

for China in the long-term, but this is also likely to involve a slower pace of GDP growth.

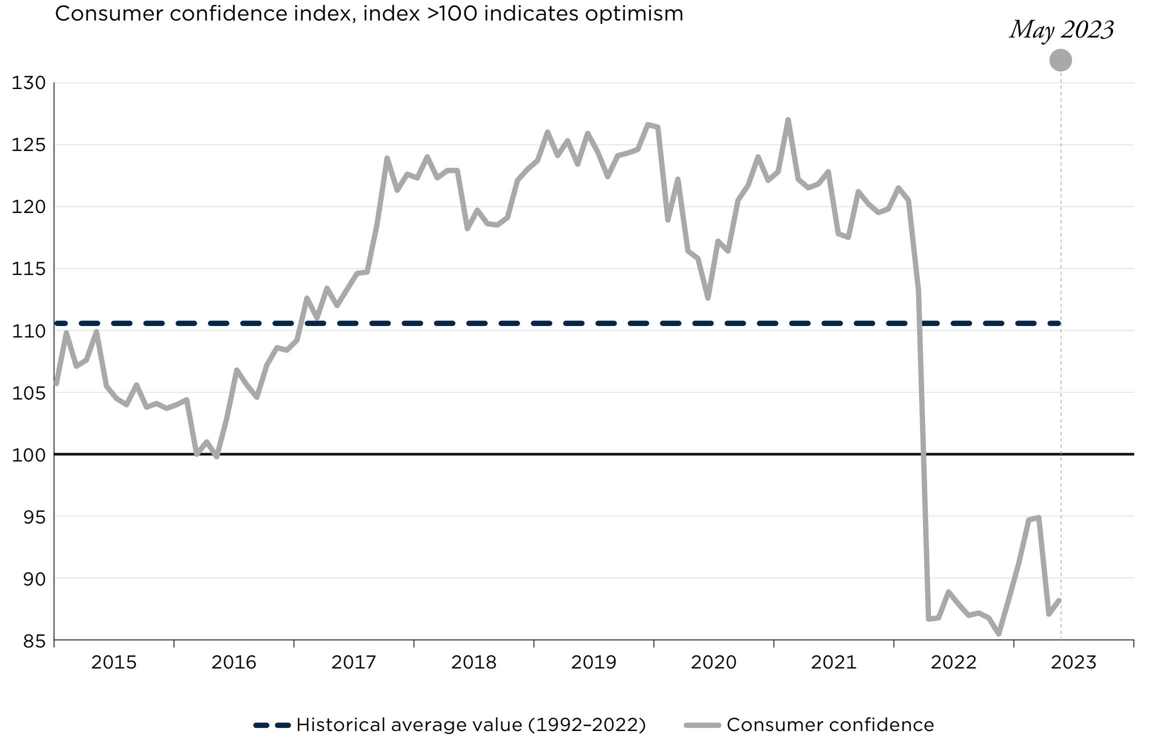
China's economic decoupling from the rest of the world, which may be fuelled by the rising geo-political tensions, shows signs of continuing or even accelerating. This will affect world trade, but it is too early to say to what extent and who the winners and loser will be. Whatever form decoupling takes, it will very likely lead to less efficient cross-border trade and thereby more expensive goods.

Besides the above challenges, China also has an underlying demographic problem. The aging population, which is mainly due to the one-child policy and further reinforced by the fact that the country had very limited immigration, means that there is only a limited amount of working individuals who can support an aging population. This demographic imbalance will impede labour force expansion and put greater pressure on the welfare system in the coming decades.

China's GDP growth is expected to hit 5.1 per cent this year, and around 4.5 per cent per year in the following two years. Compared to other major economies, this is still relatively strong growth

WILL PESSIMISTIC CONSUMERS IN CHINA JEOPARDISE THE RECOVERY?

Consumer confidence index, index >100 indicates optimism



Source: National Bureau of Statistics of China despite its slowdown. But it will take time for China to catch up with the US as the world's biggest economy, which has been a stated goal of the Chinese government, and the question that must be asked is whether the structural challenges it faces will further hamper economic growth.

India. The concerns around developments in China coupled with rising geopolitical tensions have prompted more companies to rethink their supply chains in Asia. India has taken the spotlight as a promising alternative with an economy that is performing exceptionally well and which has viable structural preconditions for stepping into China's role, as the country deals with its growing challenges. The question is whether the Indian economy can be transformed to ramp up competitive manufacturing.

India is expected to hit 6.7 per cent GDP growth in 2023, which would make it one of the fastest growing economies in the world. The country's exports of services, which make up over 40 per cent of total exports, are performing well and off-set the weak performance in exports of goods. In addition, the Indian currency – the rupee – has proven to be a stable currency that is outperforming many of its peers in the region. The indicators for both consumption and production remained strong during the summer and investments also appear to be maintaining high levels.

India's high inflation, recorded at 6.8 per cent in August and which primarily stems from rapidly rising food prices, could potentially cast doubt over the assumption that the country's current strong growth will be sustainable over time. However, the underlying core inflation, where food is excluded, dampened according to the most recent data where it stood at 4.8 per cent. Weaker demand from the global markets and rising oil prices are additional risk factors may negatively impact this oil-importing nation's economic prospects.

Another issue which may jeopardise India's continued success is the political situation. Despite significant economic reforms launched under Prime Minister Narendra Modi, several have not been fully implemented due to political opposition. Specifically, the 'Make in India' initiative has not had the intended impact on manufacturing's share of GDP. Public investments have been a key factor in India's economic recovery, but the government's ability to proceed with these investments has been hampered by fiscal constraints. The participation of the private sector has therefore become essential to maintain a high rate of investment, but the conditions are not yet in place which may slightly hamper growth.

When it comes to structural factors, India's young population has enabled the country to position itself as a potential winner in the global reallocation of manufacturing away from China. But compared to other countries in the region, such as China, labour force participation in India is low. Future growth will depend on the country's ability to mobilise its population and create jobs through a robust and profitable manufacturing sector where more people recognise the benefits of training and upskilling, and are given the opportunity to do so. A stronger manufacturing sector will also reinforce domestic consumption as a key growth driver, thereby giving the economy a more stable foundation.

India's GDP growth is estimated to fall slightly to 6.1 per cent in 2024 amid the global slowdown, only to make a strong rebound and hit 7.9 per cent in 2025 as the global economy regains momentum. Private consumption will stay relatively stable during this period, and will boost the economy during a somewhat weaker 2024. Exports and imports, coupled with industrial production, will develop at a pace that confirms India's increasingly prominent role on the global stage and will in 2025 contribute greatly to the high GDP growth.


MUMBAI, INDIA

JAPAN'S ECONOMY IS LOSING STEAM

The Bank of Japan recently announced an unexpected change in its monetary policy framework. Previously, the Bank of Japan had a specific tolerance range for the 10-year government bond yield. But with its new policy change, the central bank has now decided to let the interest rate on these bonds vary more freely, with a flexibility of +/- 0.5 percentage points.

To ensure that this rate remains within the desired range, the Bank of Japan will enter the market and offer to buy 10-year government bonds at 1 per cent every day. This policy change means the bank can expect the 10-year government bond yield to stay below 1 per cent for the foreseeable future. The low yield on Japanese bonds, coupled with other global economic developments, may weaken the Japanese currency, the yen, against other major currencies, particularly the US dollar.

If interest rates in the US are higher than those in Japan, as they are likely to be, investors will probably prefer to invest in US assets instead of Japanese assets, leading to a weaker yen. This may stimulate Japanese exports in the short term and lead to higher inflation, but it will also make investment in the country less attractive.

Japan. Japan's economy has struggled with persistently weak demand and output as well as demographic challenges since the 1990s. This has manifested itself in a low and partly negative inflation, which in itself may hamper the economy when decisions are taken based on the premise that goods and services could become cheaper tomorrow. Although wages have slightly picked up momentum and inflation has generally been positive recently, further efforts are needed to strengthen incomes, maintain upward pressure on prices and support aggregate demand.

The Japanese economy performed relatively well in the first half of this year. GDP growth is mainly driven by a positive development of net exports, where exports increased while imports decreased significantly. The reduced imports likely reflect weak domestic demand. The fact that household consumption is falling is a key reason for the weak domestic demand. Upcoming wage increases of around 2 per cent may stimulate household consumption and thereby inflation, but the pace of recovery is likely to slow as pent-up demand gradually diminishes.

In 2023, the country is estimated to reach 1.6 per cent GDP growth, but growth will fall markedly to 0.6 per cent in 2024, and then recover slightly to 1.1 per cent in 2025. Dampened demand in global markets will be the main cause of Japan's weaker economic growth in 2024. But weak investments, due to an undervalued yen, will also contribute to the Japanese economy losing momentum next year.

Indonesia. Indonesia's economic growth picked up in the second quarter of the year following an upswing in household consumption, which made a key contribution. The increased consumption was, in turn, driven by sectors that benefited from the country's reopening, especially the textile, restaurant and hospitality industries. Fixed investments, such as infrastructure and building projects, also saw positive development in the first half of the year. However, like many other exporting countries, this upswing in domestic demand was set against a less favourable external trend, which indicates some short-term challenges for Indonesia in the international market.

Indonesia is actively committing to develop its economy by focusing on industrial processing and refining, increased exports and digitalisation of the economy. By expanding its capabilities in processing and refining, the country is looking to process its raw materials to a greater degree before they are exported, which can unlock higher revenues and strengthen the industrial sector. Further investments in export, which the Indonesian government sees as another core component of the country's economic strategy, are linked to the overall plan to become a larger player in the global marketplace.

At the same time, Indonesia is focusing on becoming a digital economy and by investing in technological innovations and digital infrastructure, it hopes to create new opportunities for companies and consumers and increase the country's global competitiveness. There are also hopes of a further strengthened investment trend, which is partly motivated by plans to relocate the Indonesian capital city. Such megaprojects can stimulate investments, but will most likely occur later in the future.

Indonesia's economy shows signs of stability and solid growth until 2025. In 2023, the country's GDP is expected to jump by 5.1 per cent. Despite a probable decline in exports in 2023, economic growth remains robust. The forecast for 2024 shows weaker but still positive growth, with a 4.7 per cent rise in GDP. In 2025, GDP growth will recover and GDP is expected to jump by 5.2 per cent, primarily driven by a considerable upswing in investments.

South Korea. Economic progress in South Korea has been frustrated by challenges including high inflation and a considerable slowdown in growth. A modest GDP growth of 0.9 per cent year on year was recorded in the first half of 2023, and the outlook for the second half doesn't look brighter. Although headline inflation has retreated considerably since its peak in mid-2022, the core inflation has been more difficult to rein in. In the wake of a faltering housing market and rising interest rates, the financial sector has also exposed its vulnerability. But although financial risks have increased, they still appear to be manageable.

A decline in global demand for electronics has led to significantly lower demand for semiconductors, which has hit South Korea particularly hard. South Korea's manufacturing sector boomed in recent years, driven by strong demand for semiconductors which in 2022 accounted for more than a fifth of South Korea's production, but the semiconductor market is now projected to shrink by nearly 30 per cent in 2023, which could lead to a near 10 per cent drop in South Korea's industrial output. But the semiconductor industry is expected to recover quickly. South Korea is now placing its bets on the growing AI semiconductor market, with clear ambitions to become a leading player in this field. The government has strongly supported AI, as demonstrated by its decision to invest heavily in AI semiconductor research.

Given prevailing uncertainty in the global economy, future prospects are hard to assess and still depend on how the semiconductor industry develops. Besides this, the export sector is particularly vulnerable due to China's weak economic growth, as China is South Korea's most important trading partner.

Household consumption increased following the reopening of society, but the positive effects have gradually diminished. Household consumption is showing weak performance, although there are signs of a potential recovery. Consumers' increased optimism during the summer, a stable and strong labour market and declining inflation give some cause for hope when looking ahead.

South Korea's GDP is expected to grow by 0.8 per cent this year. The weak economic performance this year is largely due to a noticeable decline in exports as a result of the faltering semiconductor sector. Investments are also relatively low. The forecast for 2024 points to slightly stronger GDP growth of 1.2 per cent, despite continued weak performance in exports and investments. The forecasts for 2023 and 2024 are significantly lower than the South Korean economy's potential growth rate of around 2 per cent. By 2025, a turnaround is expected with growth hitting 2.8 per cent, mainly driven by a significant jump in exports and investments.


SEOUL, SOUTH KOREA

REGIONAL INSIGHTS

– Inflation in retreat, high interest rates
– Hopes of a soft landing
– Cooling labour market

NORTH AND SOUTH AMERICA

ECONOMY HITS THE BRAKES

USA. Following two years of high-profiled initiatives and legislation that has successfully passed through Congress, including a federal aid package (*The American Rescue Plan*), an infrastructure investment plan (*The Infrastructure Investment and Jobs Act*), the new climate bill, *The Inflation Reduction Act*, and a national effort to develop and manufacture semiconductors, *The CHIPS and Science Act*, the Biden administration's economic programme has entered a quieter phase. Instead, social issues and foreign policy, with the Ukraine war and US-China relation as top priorities, have seized the spotlight in American politics.

After the Supreme Court in June blocked President Joe Biden's executive order to provide debt relief and support for student loan borrowers at an estimated cost of USD 400 billion, the president launched the similar programme *Saving on a Valuable Education* (SAVE) in August. This initiative is also expected to be challenged in the courts, following lawsuits from Republicans who argue that the costs of the write-off are being unfairly forced onto American taxpayers.

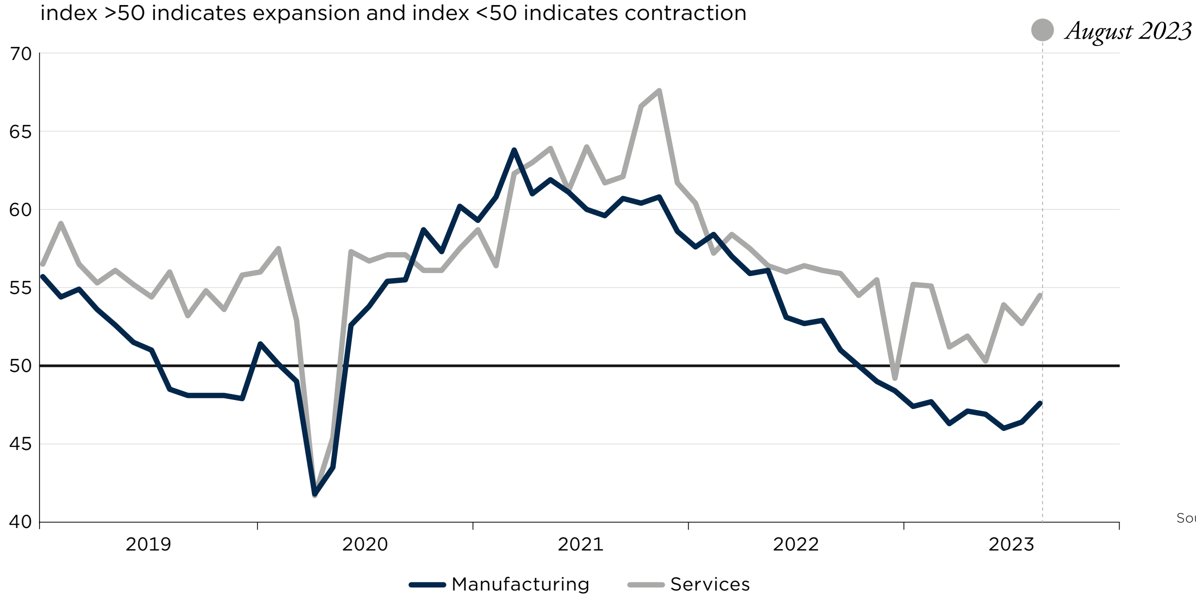
High inflation and rising costs of living in recent years have contributed to Biden's current low approval ratings among American voters, coupled with low confidence in Biden's economic policies. Preparations for the 2024 campaign and presidential election have now begun, in a likely new showdown between last election's opponents, but now with Biden as President and Trump as contender instead of vice versa. The economic alternatives would then be between Bidenomics and MAGA-nomics, which put simply means a choice between more or less state and public sector involvement in the economy.

CONSUMERS SHOW STAMINA

The US economy performed surprisingly well during the first half of this year with continued robust household consumption, partly due to pent-up savings from the pandemic years, and a solid pace of investments. The labour market continues to deliver new jobs, albeit at a slower pace. Unemployment rose slightly to 3.8 per cent

RESILIENT SERVICES SECTOR IN THE US

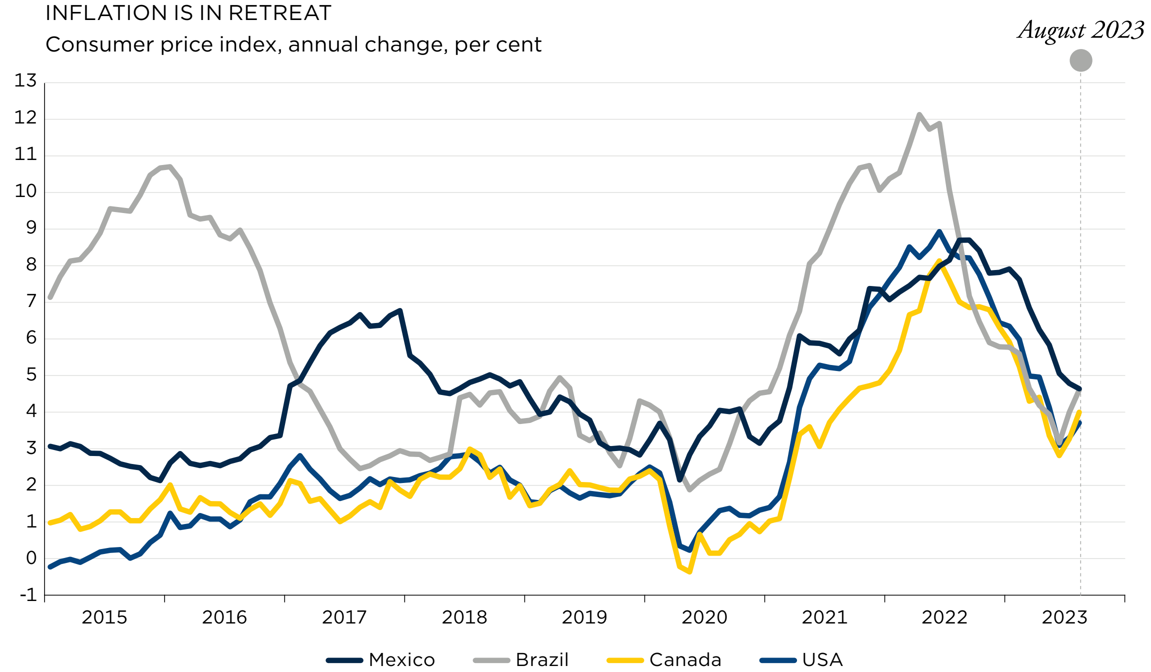
Purchasing managers' index in the US,
index >50 indicates expansion and index <50 indicates contraction



Source: ISM

INFLATION IS IN RETREAT

Consumer price index, annual change, per cent



Sources: National sources and Macrobond

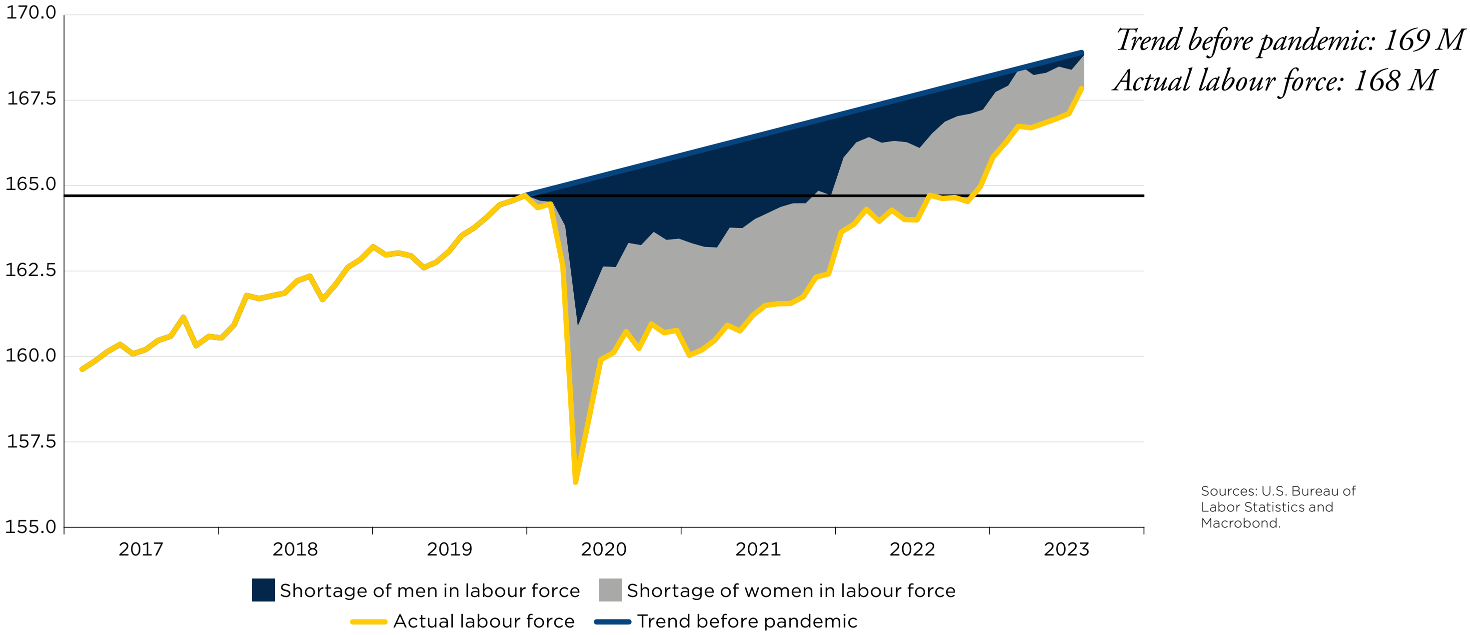
in August, but this was largely due to an increased inflow to the workforce.

Inflation has continued to fall back during the year but bounced up again to 3.7 per cent in August. The Federal Reserve announced the latest interest rate hike at its July meeting, with an increase of 25 basis points to an interval of 5.25-5.50 per cent, the highest level in 22 years. At the September meeting, the Fed decided to leave the interest rate unchanged but signalled that an additional hike could be forthcoming. The interest rate hikes seem to have had the intended effects and have improved chances of achieving a soft landing for the economy, which means that the inflation target is reached without the economy tumbling and going into recession.

Most analysts agree that a US economic slowdown has begun, but the signs are not unambiguous. ISM's purchasing managers' index for manufacturing, which has stayed below the 50-mark since last October, climbed slightly to 47.6 in August. The index for the services sector rose to 54.5 in the same month. Other indicators such as OECD's Business Confidence Index (BCI) show that the business community's confidence in the US economy has bottomed out and rebounded to just below normal levels. But consumer confidence in the economy is weaker: in the

LABOUR FORCE EXPANDS

Number of people, million



Sources: U.S. Bureau of Labor Statistics and Macrobond.

Sources: U.S. Bureau of Labor Statistics and Macrobond

Conference Board's most recent survey in August, the index fell to just above the level indicating an impending recession.

The forecast for the US economy is GDP growth of 2.1 per cent this year, mainly driven by a strong labour market and continued robust growth of private consumption. A strong performance for exports and a sharp drop in imports will also contribute significantly due to growth from net exports. The expected economic slowdown will result in GDP rising by 0.4 per cent in 2024, in a weakening of private consumption and investments. The economy is forecasted to regain vitality in 2025 in a moderate, broad-based recovery resulting in 1.6 per cent growth.

Canada. The economy weakened in the first half of this year as private consumption and investments hit a slowdown. Rapidly falling inflation, which stood at a moderate 3.3 per cent in August, represents a bright spot. But the Bank of Canada's record fast interest rate hikes from 0.25 per cent in March 2022 to 5.00 per cent in July 2023 have worn down the highly indebted and interest rate-sensitive Canadian households. The interest rate was left unchanged at the latest September meeting.

Following a downturn that began last year, prices have stabilised in the troubled housing market, but the crash that many analysts had anticipated appears to have been averted, or at least postponed. Consumers are pessimistic about both their own economy and the country's economic performance. Unemployment is rising from a low level and hit 5.5 per cent in August, and retail revenues are falling.

Canada's important oil and gas industry is benefiting from the spike in energy prices late this summer, and exports, which mainly target the US market, are forecast to grow in 2023. For the industrial sector as a whole, production is expected to stagnate this year. S&P's purchasing managers' index for manufacturing fell slightly to 48 in the August survey.

A modest 0.7 per cent GDP growth is expected this year, following a marked slowdown in private consumption, while net exports make a positive contribution. The unprecedented forest fires that have raged across Canada since March have so far burned down 5 per cent of the country's forests, which has also damaged the economy. Canada moves into recession this autumn in the wake of the slowdown in the US market, resulting in a 0.6 per cent decline in GDP in 2024. The forecast points to economic recovery in 2025 with 3.4 per cent growth, as inflation falls back and prompts a normalisation of the interest rate, and as external demand strengthens.

Mexico. Data for the first half of this year indicate strong economic momentum. Inflation is coming down, standing at 4.6 per cent in August, real incomes are rising and household consumption remains robust. The labour market is still tight with a low unemployment rate of 3.1 per cent in July. S&P's purchasing managers' index for manufacturing has gradually climbed just above the 50-mark since the year began.

The central bank's policy rate has remained at 11.25 per cent since the latest rate increase in March this year. In its announcements, the bank has emphasised the importance of combating a wage and price spiral and played down the dampening effect on inflation, due to the appreciation of the peso against the dollar by nearly 10 per cent in the past year.

The economy is expected to expand by a robust 2.8 per cent this year, driven by private consumption

SOUTH AMERICA

Persistently high inflation, albeit falling, and high policy rates ranging from 7 to 13 per cent are putting mounting pressure on households in South America, resulting in more poverty and social tension. The region's populations are growing increasingly uncertain about the availability of energy and food at reasonable prices. The labour market has largely strengthened after the pandemic, and the services sector has made a full recovery, but high unemployment in several South American countries remains entrenched, hitting close to 10 per cent in faltering domestic labour markets, with many low-wage jobs and underemployed people. Government support and grants to low-income families have not managed to prevent a third of the population from being classified as below the poverty line.

Approximately 70 per cent of South America's exports consist of raw materials, but the countries' widely varying raw material resources mean that last year's volatile prices for oil, gas, metals and agricultural products have played out differently in different markets.

South America's GDP is expected to increase by 1.7 per cent this year, before gradually slowing to 1.2 per cent in 2024. Growth is expected to pick up again and hit 2.7 per cent in 2025, in a more favourable global economic environment where cross-border trade regains strength.

and a strong pace of investments. GDP growth will then simmer in the wake of dampened demand from the US. The slowdown will affect the important export industry, but remittances from Mexican guest workers and, by extension, tourism will also be negatively affected as the US labour market cools down. The forecast shows GDP growth of 0.8 per cent in 2024 and an uptick to 2.6 per cent in 2025 as the US economy recovers.

Brazil. Last year's strong recovery in Brazil is expected to be maintained this year. Households' purchasing power has been undermined by recent price hikes, but high wage increases and good domestic harvests, which are expected to suppress food prices, will keep real incomes afloat. The labour market remains tight with unemployment below 8 per cent in July. However, a recent OECD study shows that youth unemployment is a major social problem for Brazil – just over a third of all young people between the ages of 18–24 are neither studying nor working, a share that according to the study is only surpassed by South Africa.

The industrial and services sectors are showing varying degrees of progress. S&P's purchasing managers' index for manufacturing has risen since April, while the services sector index has fallen in the same period. In the August survey, the two sectors met at the 50-mark, indicating a normal level of activity in the economy.

The scepticism around President Lula's economic policies has grown among business leaders, but the government's recently launched plans to simplify the tax system and regulations for balancing public finances have been met with positive reactions among investors.

Inflation has fallen to the central bank's target range of 3.25 per cent, give or take 1.5 percentage points, and the bank decided on a second rate cut of 50 basis points to 12.75 per cent at its September meeting.

The GDP forecast for this year shows growth of 2.9 per cent, driven by a moderate rise in government and private consumption and strong export growth, while investments are falling and industrial production is stagnating. Growth is expected to slow in 2024 resulting in 0.4 per cent GDP growth, mainly due to falling private consumption. A recovery in domestic and global demand is expected to boost growth to 2.0 per cent in 2025.

RIO DE JANEIRO, BRAZIL

APPENDIX

COUNTRY	Swedish goods exports, current prices			GDP growth, constant prices, %				Inflation, %
	Exports 2022, SEK bn	Change 2021–2022, %	Share of Swedish exports 2022, %	2022	2023f	2024f	2025f	2023
Europe								
Sweden				2.9	-0.9	0.5	2.5	8.5
Austria	19.7	33.1	1.0	4.9	0.0	1.0	2.6	7.7
Czech Republic	17.7	21.7	0.9	2.4	-0.3	0.8	2.8	10.5
Denmark	149.6	18.3	7.6	2.7	1.6	1.5	3.2	3.8
Finland	147.0	27.2	7.4	1.6	0.3	0.8	1.3	6.2
France	80.0	19.9	4.0	2.5	0.7	0.5	1.6	5.0
Germany	203.5	19.5	10.3	1.9	-0.4	0.3	1.9	5.8
Italy	60.6	27.6	3.1	3.8	0.7	0.6	1.2	5.8
The Netherlands	96.3	16.4	4.9	4.4	0.5	1.5	1.5	4.1
Norway	216.7	23.5	10.9	3.2	1.1	0.4	1.6	5.8
Poland	80.9	29.3	4.1	5.4	0.4	2.0	3.4	12.1
Russia	10.3	-54.1	0.5	-2.1	2.4	1.2	1.0	5.5
Spain	38.9	21.7	2.0	5.5	2.2	1.3	1.9	3.6
United Kingdom	110.8	20.8	5.6	4.1	0.5	0.4	1.5	7.5
Americas								
Brazil	16.9	63.8	0.9	3.0	2.9	0.4	2.0	4.6
Canada	14.7	42.9	0.7	3.4	0.7	-0.6	3.4	3.7
Chile	4.3	23.6	0.2	2.5	-0.3	1.6	3.3	7.6
Colombia	1.8	48.8	0.1	7.3	0.9	0.1	2.7	11.5
Mexico	9.9	45.7	0.5	3.9	2.8	0.8	2.6	5.5
USA	184.7	34.4	9.3	2.1	2.1	0.4	1.6	4.1
Asia and Oceania								
Australia	17.6	21.4	0.9	3.7	1.8	1.2	2.9	5.7
China	71.2	5.5	3.6	3.0	5.1	4.6	4.5	0.5
Hong Kong	0.0	0.0	0.0	-3.5	3.9	3.0	3.4	1.9
India	17.2	49.7	0.9	6.7	6.7	6.1	7.9	5.8
Indonesia	4.9	46.1	0.2	5.3	5.1	4.7	5.2	3.6
Japan	27.9	14.3	1.4	1.0	1.6	0.6	1.1	2.8
Malaysia	3.7	10.5	0.2	8.7	3.0	4.1	6.0	2.7
The Philippines	1.6	-4.8	0.1	7.6	4.5	4.7	6.6	5.8
Singapore	14.5	33.3	0.7	3.6	0.4	2.3	4.1	4.3
South Korea	17.3	17.4	0.9	2.6	0.8	1.2	2.8	3.3
Taiwan	8.1	37.1	0.4	2.4	0.6	2.5	3.2	2.1
Thailand	7.3	37.0	0.4	2.6	3.1	3.9	3.9	1.8
Vietnam	2.4	11.3	0.1	8.0	3.9	4.2	7.6	2.5
Middle East, Türkiye and Africa								
Kenya	0.4	16.6	0.0	4.8	4.3	3.3	4.0	8.1
Morocco	3.4	20.7	0.2	1.3	1.9	2.5	3.8	6.1
Saudi Arabia	13.2	27.8	0.7	8.7	0.4	4.2	4.2	2.7
South Africa	10.9	41.8	0.5	1.9	0.8	1.0	1.2	5.8
Türkiye	20.4	34.9	1.0	5.5	3.0	0.7	2.0	54.2
United Arab Emirates	8.6	26.8	0.4	7.9	2.2	4.3	5.2	2.9

Sources: Oxford Economics, Statistics Sweden, Business Sweden

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