GLOBAL GROWTH WAVE LEVELS OFF

MARKET INSIGHT MAY 2018

BUSINESS SWEDEN

INDEX

CHIEF ECONOMIST'S COMMENTS

A ROSY OUTLOOK

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All the indications are that 2018 will bring yet another year of positive growth to virtually all parts of the world and strong global trade flows. If everything goes to plan and the outlook remains rosy, trade flows may push even higher. The global economy will strengthen further this year before levelling off, though with considerable disparities at regional level. Emerging economies will continue to forge ahead, while the pace of growth will ease in large Asian economies such as China and Japan, as well as in Europe, led by Germany. In North America, we see a mix of optimism and anxiety over economic prospects that reflects the fiscal stimulus delivered by sweeping US tax cuts and a tense and deteriorating relationship between the US and Mexico.

The current strength of the global economy is founded on strong industrial production and a continued recovery in investment, which is rebounding especially fast in Europe amid an underlying need to replace old machinery and expand production capacity.

Increased resource utilisation in the industrialised economies and a gradual increase in inflation have curbed the need for monetary expansion. The US Federal Reserve has already raised interest rates and, although the European Central Bank has so far held off on doing so and the Swedish Riksbank is expected to delay raising rates until early 2019, the direction of travel is apparent. But although rates are on their way up, the low-interest-rate environment will remain in place.

Swedish exports, which consist largely of intermediate and investment goods, are benefiting from the global economic upturn and increasing investment. In 2018 they will also be lifted by a weak krona. Exports are expected to surge this year and to be the primary driver of GDP growth over the next 24 months.

Despite the benign global economic outlook, several potential hazards can be observed. Increasing protectionism, high levels of debt in major economies such as China, Japan and the US, the rebalancing of the Chinese economy, and market turbulence caused by rapid interest rate hikes are among the potential clouds we see on the horizon. US President Donald Trump's threats to impose more tariffs on Chinese imports – and China's tit-for-tat imposition of duties on US imports – have the potential to jeopardise the global upswing.

We can but hope that such dangers are avoided, allowing us to enjoy the current upturn and remain focused on achieving socially inclusive sustainable growth at global level.

Lena Sellgren
Chief Economist

THE GLOBAL ECONOMY AND SWEDEN

MODEST GROWTH AT GLOBAL LEVEL

The world economy will see another year of expanding growth in 2018. The expansion will be strongest in North and South America, Africa and the Middle East, while growth in Europe and Asia will taper off. In Europe, the primary cause will be a slower increase in private consumption in Germany and the United Kingdom, though higher GDP growth in France due to higher growth in exports will partly offset this effect. A normalisation of monetary policy in the eurozone will feed through into lower growth from 2019. In Asia, growth will be slower due to a flatter economic trajectory in China especially, reflecting tighter economic policy and a closer focus on long-term sustainable growth driven by private consumption.

Global economic growth has risen rapidly in the last 12 months, especially in OECD member states, though emerging economies have also posted healthy gains. Spearheading the current expansion are a rebound in investment following a steep downturn after the 2008 financial crisis and strong growth in industrial production. Investment is projected to continue rising, strengthening the global economic upswing in 2018. Indicators of market confidence have levelled off slightly in recent months but remain at high levels. Unemployment, which is already low in many countries, is expected to fall further. Global GDP growth, which was 3.7 percent last year, is expected to reach 3.9 percent in 2018 before easing to 3.7 percent in 2019.

INVESTMENT CONTINUES TO DRIVE GROWTH

Fuelling global growth is a strong increase in industrial production and a continued recovery in investment, which is rising especially fast in Europe. The increase is from a low level, however, meaning that investment overall is still below pre-financial-crisis levels. Indicators of market confidence remain at high levels, though they have decreased somewhat since the beginning of the year. In Europe, this may indicate somewhat slower growth going forward.

The US is well ahead in the business cycle and unemployment is low. GDP is forecast to continue growing due to the strength of the underlying economy and the impact of the administration's fiscal stimulus on private consumption and business investment.

Asian economies are in the midst of a gathering transition towards consumption-led growth, reflecting the fact that consumers are increasingly able to reap the rewards of rising personal incomes. Private consumption is projected to remain strong due to buoyant economic conditions and strong labour demand. Though China is expected to reach its 2018 targets, GDP

GDP GROWTH, ACTUAL AND FORECAST, %

Region	2017	2018F	2019F	Share of global GDP, 2017, %
Global*	3.7	3.9	3.7	100.0
Sweden	2.7	2.8	2.1	0.7
Asia & Oceania	4.8	4.6	4.2	35.5
Europe	2.4	2.3	1.9	27.6
North America	2.3	2.6	2.4	25.8
South America	1.1	2.1	3.0	5.5
Africa	3.4	3.5	3.7	3.0
Middle East	0.6	2.6	3.3	2.6

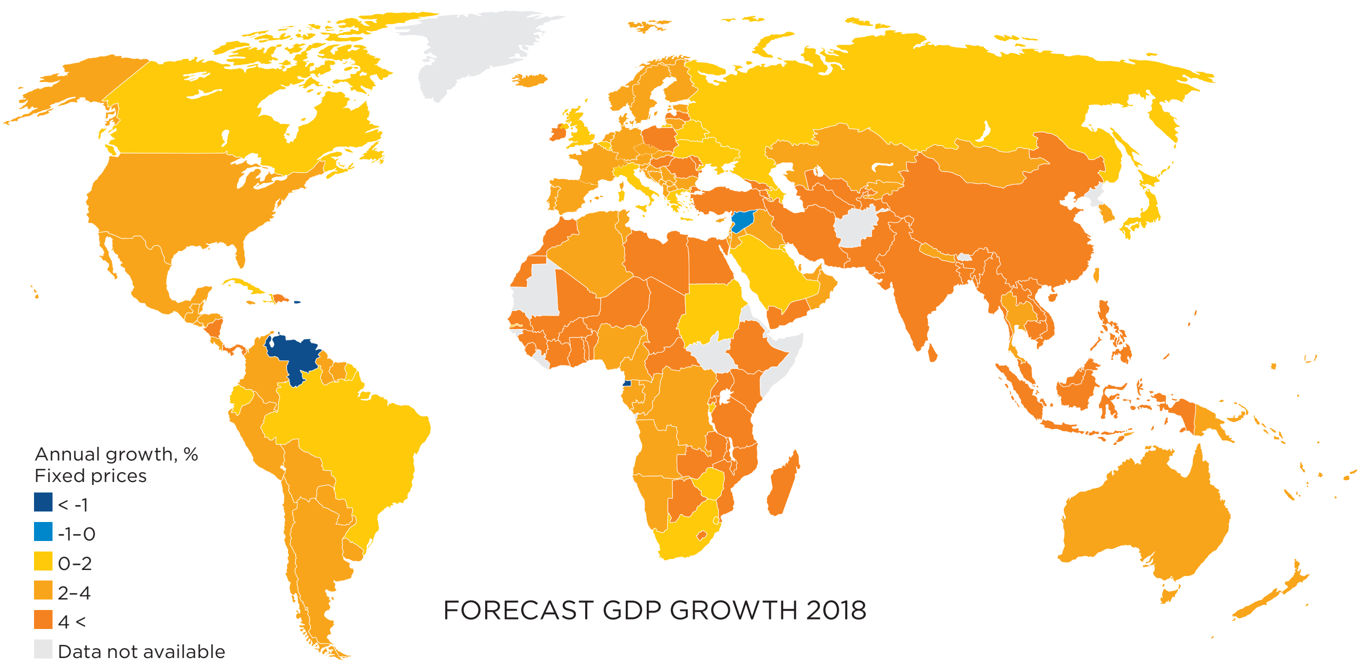
Note: All figures in fixed prices.
Percentages are rounded off so do not add up exactly to 100 percent
*GDP growth adjusted for purchasing power
Sources: Oxford Economics, Business Sweden

growth will be slightly lower this year than in 2017 due to an increased focus on structural reforms, a less expansionary economic policy and the implementation of measures to address high domestic debt. Many Asian countries depend on China as an export market. Indeed, 56 percent of China's imports come from other Asian nations (not including Australia and New Zealand). As a result, lower Chinese demand for exports will dampen the growth of other Asian countries' exports this year.

Emerging economies like Russia and Brazil benefit when the prices of commodities – particularly oil – rise. The price of Brent Crude is forecast to be around $66, on average, in 2018-2019, which is considerably higher than the average of $51 in the last three years. Saudi Arabia saw its economy contract last year due partly to a voluntary reduction in oil output, fiscal tightening and only modest growth in non-oil sectors. The outlook for 2018 is much brighter thanks to a more expansionary fiscal environment, a gradual increase in oil production and the implementation of growth-friendly policies. Middle Eastern nations are facing a major transition as new energy sources emerge to replace oil, and companies in these countries will have to adapt their activities while scaling back oil production.

TIGHTER MONETARY POLICY

Increased resource utilisation in the industrialised world combined with rising (but nevertheless low) inflationary pressure has reduced the need for expansionary monetary policy. The US, which is at the vanguard of the global business cycle, is enjoying high growth and full employment. As a consequence, inflation is projected to rise further in 2018, ending the year just above the Federal Reserve's 2 percent target. The Fed's new chairman, Jerome Powell, is expected to respond by raising interest rates three more times this year. In Europe, which is behind the US in the business cycle, growth is robust but inflation remains below the 2 percent target and the European Central Bank is not expected to raise interest rates until 2019 as a prelude to a gradual normalisation of monetary policy.



FORECAST GDP GROWTH 2018

Sources: Oxford Economics, Business Sweden

FORECAST SWEDISH EXPORT GROWTH, %

Region	2018F	2019F	Share of Swedish exports 2017, %
Europe	5.1	3.9	72.2
Asia & Oceania	5.4	4.6	13.1
North America	5.2	3.3	8.2
South America	6.1	5.7	1.6
Africa	8.4	4.3	2.1
Middle East	4.1	4.4	1.9
Global	5.2	4.0	100.0

Note: All figures in fixed prices. Turkey included in Europe
Sources: Oxford Economics, Business Sweden

RISKS TO GLOBAL ECONOMIC GROWTH

The global economy is experiencing a moderate upswing that looks set to continue for the time being. Nevertheless, there are factors that could jeopardise this scenario. The risk of a global trade war has risen recently following the imposition by the US tariffs on steel and aluminium imports. The direct impact of these duties is seen as limited, but US threats to apply further tariffs to Chinese imports, triggering further Chinese duties on US imports, has the potential to unleash a global trade war. This would be highly damaging both for the international economy and for Sweden.

A second risk relates to market volatility caused by rapid interest rate increases, notably in the US. Moves by the Federal Reserve to dampen the inflationary effects of the administration's fiscal stimulus package by raising interest rates faster than expected could potentially trigger volatility on financial markets and cause share prices to fall if investors were to move money into bonds. Many emerging economies have loans financed by foreign investors. An appreciation of the US dollar due to faster-than-expected interest rate hikes could precipitate capital outflows from these nations, undermining emerging-market currencies and adversely affecting economic growth.

In China, the rebalancing of the national economy, a closer focus on sustainable growth and a tightening of credit rules will cause growth to slow going forward. A fall in investment or a drop in property prices would peg back growth even further. Given China's status as the world's second largest economy, this would have a negative impact on global growth.

Any underestimate by this report of the strength of the global economy would represent an upside risk because Swedish exports would rise faster than forecast and result in Swedish growth being higher than expected.

Other upside risks include faster GDP growth in the US due to the administration's fiscal boost in the form of tax cuts and spending measures. This report projects that the fiscal package will add 0.7 percentage points to US GDP growth this year and 0.6 percentage points in 2019. There is a possibility that the impact will be even higher, which would benefit both the US and global economy.

GLOBAL INVESTMENT RISE CONTINUES TO SPUR SWEDISH EXPORTS

Swedish exports are benefiting from strong global economic conditions and an upswing in investment, and are the sector projected to make the biggest contribution to GDP growth in the next two years. The favourable export climate is encouraging companies to ramp up production, with high capacity utilisation triggering strong growth in business investment despite slower residential property investment. Wages are gradually rising due to tight labour markets but inflation is not projected to reach the Riksbank's 2 percent target before 2020. The Riksbank is therefore expected to refrain from raising interest rates until early 2019. Swedish GDP is projected to grow by 2.8 percent this year and by 2.1 percent in 2019.

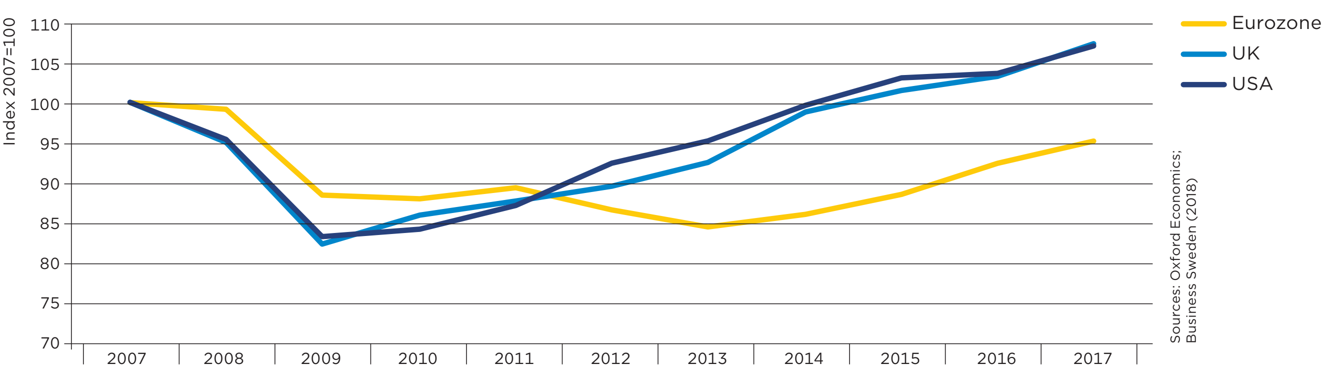
The most significant downside risk to the Swedish economy in the short term is a sharper-than-expected decline in house prices. The fall in residential property values at the end of 2017 came after a period of rapid gains, and market fundamentals suggest that price falls will be limited and have a narrow economic impact. However, there is a risk of prices falling further than expected as a result of new mortgage repayment rules introduced in March and a heavy supply of newly built housing. There is also a risk that voters at the general election in September will elect a weak government that struggles to push through its policies. Such an outcome could have a negative impact on long-term growth.

STRONG EXPORT GROWTH THIS YEAR

The value of global trade rose by 4.5 percent in 2017 and has remained strong in 2018 so far, helping to underpin a sharp upswing in Swedish exports. A majority of indicators – including the Business Sweden Export Managers' Index for the first quarter of 2018 – suggest rising optimism among Swedish exporters. The outlook is patchy, however, with demand for Swedish exports being projected to increase strongly in Western Europe and North America but to decline in Asia. A weak krona is another factor that will help Swedish exporters this year, though the currency is expected to appreciate over the longer term. Swedish exports are projected to grow faster than the overall market (measured as global demand for imports from Sweden) and will rise by 5.2 percent in 2018 and 4.0 percent in 2019 compared to 3.7 percent in 2017.

Increasing global industrial production and capacity utilisation indicates a strong need for new investment. Higher investment is good news for Swedish exporters, which primarily produce intermediate and investment goods, and for this reason we expect robust growth in Swedish goods exports. Exports of services, which have been relatively weak in the last two years, are projected to accelerate in the next two years, albeit falling short of their annual historical average growth rate of 6 percent since 2000.

TOTAL FIXED INVESTMENT



JAPAN

BETWEEN RECOVERY AND STRUCTURAL REFORM

Japan is the world's third largest economy after the United States and China and is therefore an important player in the global economy.

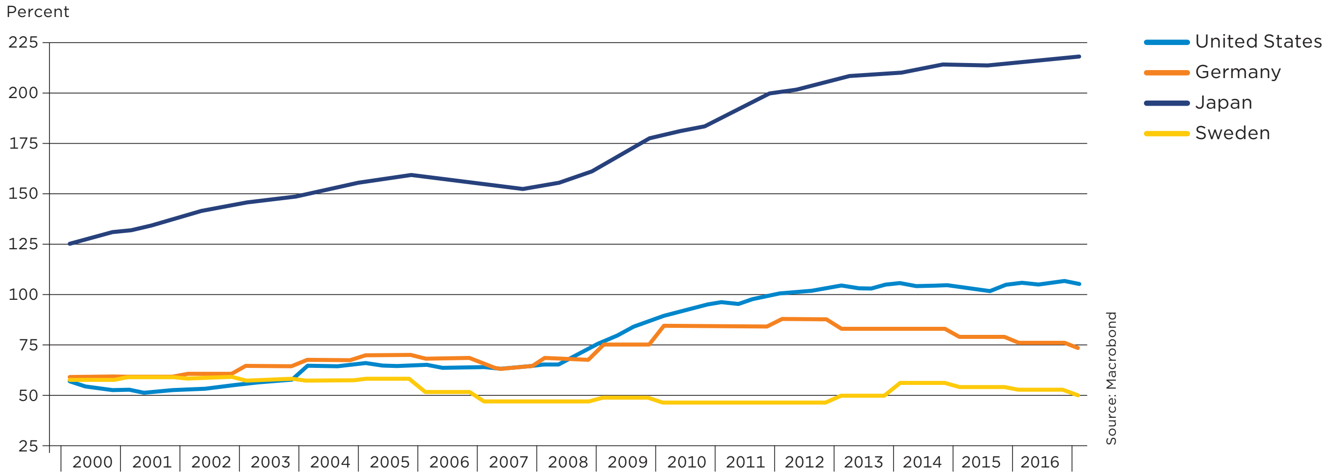
Ever since the real estate crash in the 1980s, Japan has tackled a stagnating economy where constant price falls, high corporate debt, low wage growth and persistent weak demand are typical problem areas. Although inflation is still well below the 2 per cent target, prices and wages have begun to increase in recent years. GDP growth has recovered and GDP is expected to increase by 1.5 per cent this year, but the growth rate will be tempered to just below 1 per cent as early as next year. The Japanese economy is facing major structural challenges, not least in terms of coping with an ageing population and shrinking workforce. Japan is currently opening up its economy to the outside world which is a positive step that will strengthen Japan's economy and benefit the global economy.

Following the 2012 elections, Prime Minister Shinzo Abe launched a comprehensive economic reform programme that became known as "Abenomics", with policies aimed at breaking Japan's cycle of economic stagnation. The programme was based on the so called "three arrows": fiscal expansion, monetary easing and structural reforms. In line with this strategy, the central bank, the Bank of Japan, has pursued a highly expansionary monetary policy through lowered benchmark interest rates and massive bond purchases. Large investments in infrastructure projects is another facet of Japan's expansionary fiscal policy, which to a degree is considered to have had a positive impact on economic growth. However, the comprehensive structural reforms that are crucial for future success have yet to be initiated.

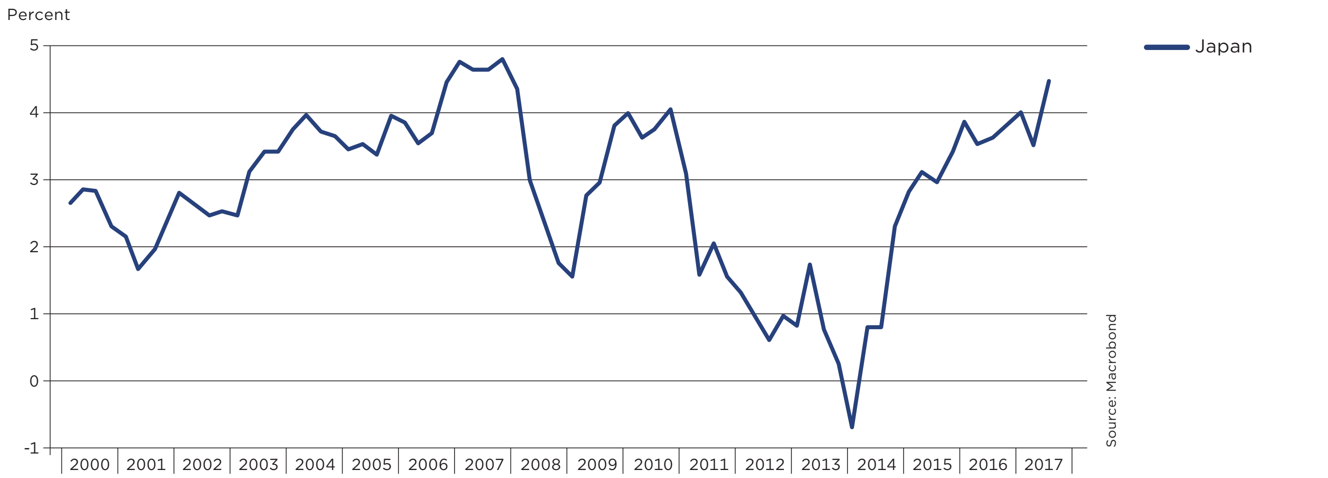
The high level of public debt, which corresponds to approximately 225 per cent of GDP, is a major challenge for Japan's economy. This debt has remained high for many years and exceeds public debt levels in comparable economies in the West. The public debt is not a major concern since it mainly has been financed by the domestic market, which means that Japan has not been dependent on the rating institutes and their risk assessments when grappling with the deficit.

Additional factors such as the population's high net wealth, Japan's current account surplus (approx. 4.5 per cent of GDP in 2017) and low interest rates have helped to suppress the costs of managing the public debt. The policy interest rate is currently -0.10 per cent. Even the interest rates on government bonds with a validity period shorter than 10 years remain negative. The Bank of Japan's substantial purchase of bonds is a key contributing reason for the low bond rates. The central bank now owns 40 per cent of the outstanding stock of government bonds.

THE PUBLIC SECTOR'S GROSS DEBT, AS PERCENTAGE OF GDP



JAPAN, CURRENT ACCOUNT BALANCE, AS PERCENTAGE OF GDP, CALENDAR ADJUSTED, SEASONALLY ADJUSTED



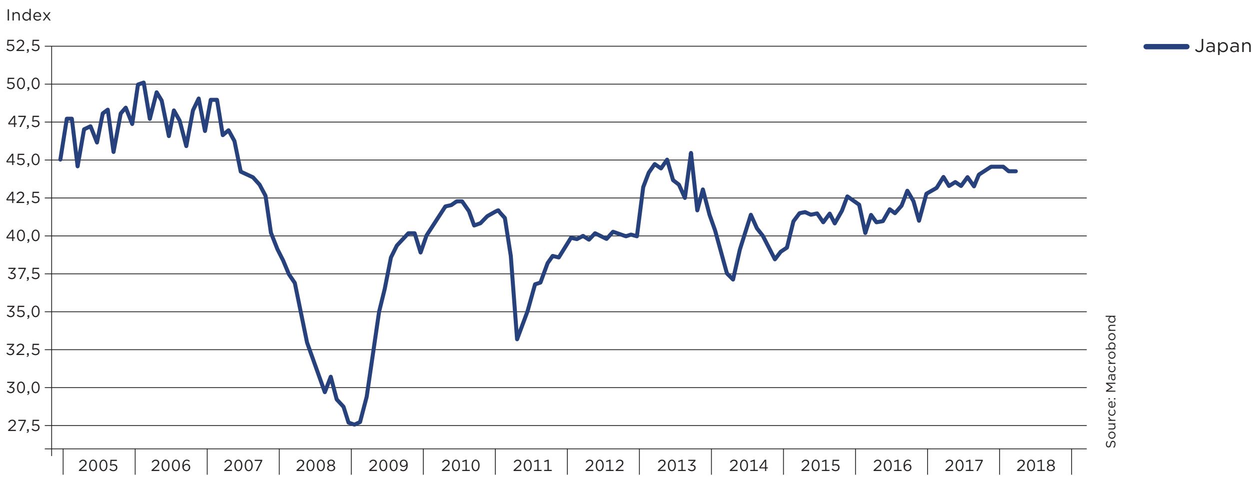
ANOTHER YEAR OF ROBUST MARKET CONFIDENCE AND HIGH GROWTH FIGURES

Confidence levels grew last year among Japanese companies and households, which is reflected in the growth figures. GDP increased by 1.7 per cent in 2017 and is expected to increase by 1.5 per cent this year. As construction investments for the 2020 Olympics decline and a consumption tax is introduced, the growth rate will by 2019 have abated to 0.9 per cent. This trend is in line with the average annual growth rate since 2000 and so, from this perspective, Japan's current GDP growth rate remains strong.

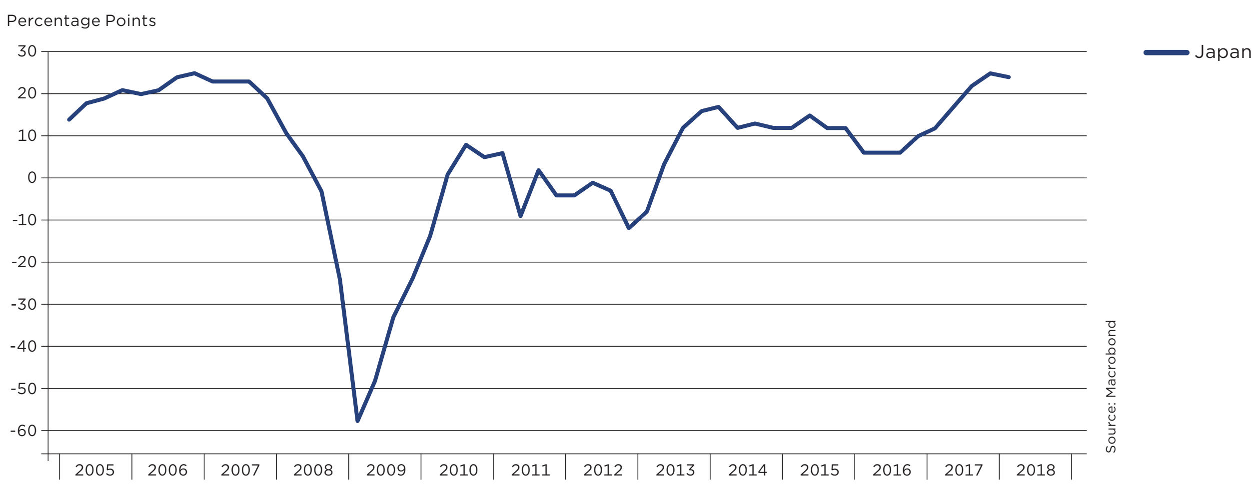
Japan's economy is growing on a wide front. The country's exports are strengthened by the current upswing in the global economy, while the strong labour market and continued fiscal stimulus contribute to increased consumption.

All confidence indicators are above their historical averages. Both consumer confidence and

JAPAN, CONSUMER CONFIDENCE, INDEX, TOTAL, SEASONALLY ADJUSTED



JAPAN, BUSINESS SURVEY, TANKAN, LARGE MANUFACTURING COMPANIES

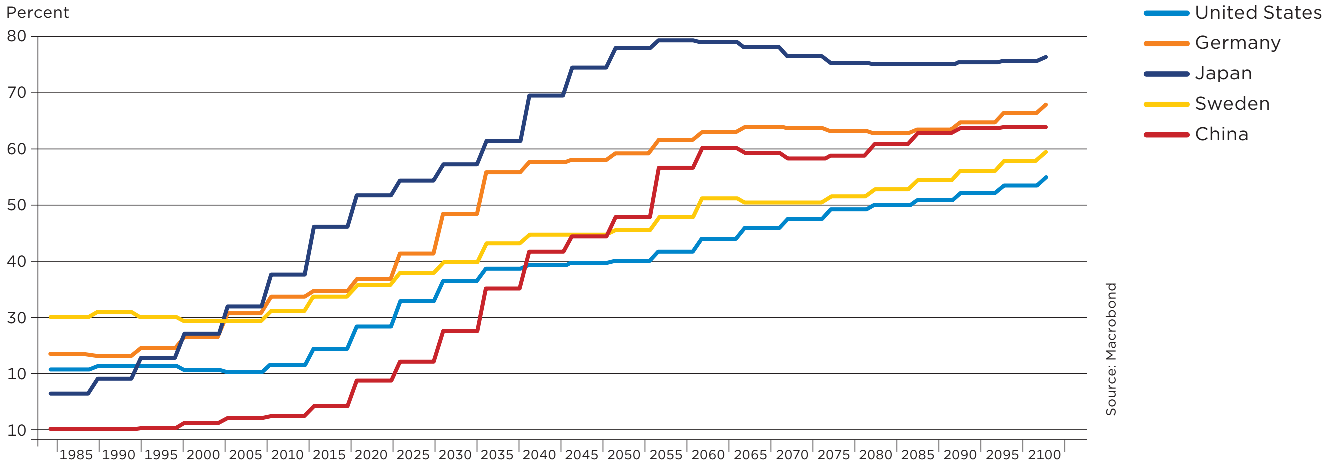


the results of the Tankan Survey, which identifies confidence levels among industrial enterprises in Japan, have followed a positive trajectory since the end of 2016. Consumers have not been as satisfied as they are today since 2013, when similar statistics were reported. Today's high confidence rates among companies in the manufacturing sector have not been seen since as far back as 2006, and these strong indicators suggest that investments will continue to grow. The 2020 Olympic Games event in Tokyo supports construction investments for now, though at a gradually declining level. The high level of consumer confidence (despite a moderate decline recently) indicates that consumption will develop positively.

STRUCTURAL CHALLENGES REMAIN FOR CONTINUED GROWTH

Japan's economy is currently growing at a high rate compared to the 0.9 per cent average annual rate reported since 2000. The country falls into the category of developed economies that have a high GDP rate per capita, approximately USD

DEPENDENCY RATIO (RELATION, POPULATION 65+ PER 100 INHABITANTS IN THE AGE OF GROUP 20–64)



42,000 when adjusted for purchasing power in 2016. This figure is lower than, for example, the U.S. (approx. USD 57,000) and Germany and Sweden (approx. USD 49,000), but higher than the EU average calculated for 28 countries (approx. USD 40,000). GDP per capita growth is also high but mainly because of the shrinking workforce, as a result of Japan's ageing population. However, the country has large structural problems that inhibit long-term growth.

According to Oxford Economics, Japan's long-term GDP growth is just 0.6 per cent per year. This can be compared to the U.S. and Germany where the annual long-term growth rate is 1.8 and 1.3 per cent respectively. The same growth rate figure for Sweden is 2 per cent.

Reforms carried out in the following areas are necessary to ensure that Japan's economic growth can be sustained in the long run to increase the well-being of the population: demography, deregulation, corporate governance and the labour market.

DEMOGRAPHY: Japan has long had an ageing population and the dependency ratio (calculated as the quota of people above the age of 65 per 100 inhabitants in the age group 20-64) is 46 for the year 2015. This means that there are 0.46 elderly for every person in the age group 20-64. The corresponding ratio in the U.S. and China is considerable lower. Even Sweden and Germany have lower dependency ratios than Japan, albeit higher than in China and the U.S. Moreover, the development is not showing any signs of changing course. By 2050, it is expected that Japan's dependency ratio will be around 78. In fact, the share of elderly is so high that the population is diminishing, which means that the workforce is shrinking. For this reason, it is crucial that more people join the labour force. Possible measures to tackle this problem include increasing the immigration numbers, encouraging more women to take up work (through for example improved childcare, reduced working hours and reduced pay gaps between men and women) and revising labour market exit. If more citizens join the labour force, long-term growth can be achieved which means that the fiscal burden resulting from the ageing population can be offset.

DEREGULATION: Japan's productivity growth is limited by the fact that certain domestic sectors (agriculture, health and energy) are protected from competition. For example, customs duties on imported food have made it difficult for foreign food producers to export to Japan. So far, the tendency of politicians to reform these sectors has been low, so productivity growth is expected to be lower than 1 per cent per year over the next decade. If these sectors are exposed to more competition, it would improve productivity. However, deregulation is often a politically charged issue and it remains to be seen if Shinzo Abe will increase the element of competition in domestically protected industries in the future. That said, the forthcoming free trade agreement between Japan and the EU will enable the influx of foreign competition. This is an important signal that Japan is opening up its economy, which is necessary to sustain long-term growth. For example, the agreement means that tariffs will be removed on 85 per cent of agricultural and food products.

CORPORATE GOVERNANCE: In an effort to strengthen the competitiveness of Japanese companies, Abe's government introduced a "Stewardship Code" in 2014 and a "Corporate Governance Code" in 2015. The codes were designed to encourage listed companies to become more shareholder-friendly and to improve their capital allocation. The reforms have yielded certain positive effects, including a considerable increase of dividends. Corporate boards of directors have also become more far independent, which is a trend that has not been seen before. However, further development is hampered by cross ownership between corporate entities, insurance companies and banks, and there is major lack of transparency. Corporate boards are typically characterised by high average age, almost exclusive male membership and few – though recent improvements can be noted – independent members. Reforming this culture and incentivising companies to change will be an important issue going forward.

THE LABOUR MARKET: Demand in the Japanese labour market is fundamentally strong, unemployment stands at below 3 per cent and there are considerable labour shortages. Japan is under pressure to become less dependent on labour and to invest more in IT and robotic automation. The declining population growth, at an average of nearly 0.5 per cent per year until 2050, will mean that increased investments in IT and automated solutions can be expected in the years ahead.

In summary, it is important to be aware of the complexity of the structural challenges that Japan is facing. The direction of travel is positive, but much remains to be done. Reversing demographic trends will take time and the very high level of public debt will put pressure on the Japanese economy as global interest rates rise. If the country's current account surplus becomes a deficit it will exacerbate the situation further. At the present time, however, this risk remains low as the surplus is 4.5 percent of GDP and rising. It is positive to note that confidence in the Japanese economy remains high, but the country needs to address the structural problems discussed above if it is to raise long-term growth.

EUROPE

AT THE PEAK OF THE CYCLE

Last year was a strong one for the European economy. Growth reached 2.4 percent thanks to an export-led upswing coinciding with solid levels of private consumption and investment, and with falling unemployment and relatively low inflation. Data from the first quarter of 2018, however, suggests that the growth spurt is flattening out. Monthly figures for retail sales and industrial production were unexpectedly weak and the purchasing managers' index also fell in the early part of the year, though confidence remains at a level commensurate with strong economic growth.

Overall, the economic climate remains favourable and this is likely to prompt the European Central Bank (ECB) to curtail its quantitative easing programme at the end of the year or at the start of 2019.

Economic growth in Europe is projected to be 2.3 percent this year and to ease to 1.9 percent in 2019. The primary risks to growth are currently political in nature. The results of general elections in Italy and Hungary during the spring have the potential to cause friction within the EU. An escalation of the trade row between the US and China is another potential scenario – and one that could adversely impact European exports and prosperity.

SIGNS OF A SLOWDOWN IN EUROPE

Signs are emerging that Germany's economic boom is slowing. Domestic demand remains buoyant, but growth in private consumption is now slowing due to modest wage growth that is holding back consumer demand as inflation gradually rises. Employment is at a healthy level and the jobless rate has dropped to 5.3 percent, while industrial production remains high and labour shortages are starting to intensify. Such bottlenecks, combined with strong order intake, have encouraged companies to invest. European exports are expected to rise by 6 percent in 2018.

In February, employers and trade unions representing 2 million metalworkers agreed a 4 percent wage increase, while public sector trade unions are demanding increases of 6 percent. These are signs of increasing wage inflation. In Germany, Chancellor Angela Merkel was weakened by the September general election result, though political momentum has since picked up following the agreement of a grand coalition between the Christian Democratic and Social Democratic parties.

In France, economic activity continues to accelerate and private consumption is growing solidly. Disposable incomes are being partly eroded by rising inflation but will be boosted by tax cuts planned for later this year. The labour market is strong, with many new jobs being created, though the unemployment rate remains high at just under 9 percent (compared to the EU average of 7 percent). Industrial production and capacity utilisation are increasing, as is industrial investment. Likewise, French exports are benefiting from rising demand in Europe and globally.

Following his election in May last year, President Emmanuel Macron announced a phased cut in corporate tax from 33 percent to 25 percent. This will bring France closer to the European average of 20 percent and, together with a €50 billion government investment programme, is fuelling optimism in the business sector.

In the UK, the economy remains in the shadow of Brexit but is nevertheless expected to grow by 1.7 percent this year, compared to 1.8 percent last year. However, moderate wage growth, rising inflation, higher interest rates, a weaker labour market and low household saving are putting a brake on private consumption. Export performance is relatively strong, despite a gradual strengthening of the pound. Investment rose by almost 4 percent in 2017, but has been hit by uncertainty over the country's future trading relations and is expected to halve to 2 percent this year.

In mid-March the UK and EU agreed in principle to maintain current trading arrange-

“MANUFACTURING IS BOOMING”

ments for a two-year transition period following the UK's departure from the EU, in an agreement stretching until 31 December 2020. The deal will allow the UK during this period to sign alternative trade agreements but will require it to accept EU rules on freedom of movement and commit it to implement all new EU regulations without being part of the decision-making process. The parties also announced the imminent start of negotiations on a future UK-EU trading relationship.

PARALYSIS IN ITALY

The Italian economy remains weak but is nevertheless healthier than it was during the last decade. The labour market is relatively strong, in spite of high unemployment, but growth in private consumption is forecast to slow this year. The export sector is performing well and business investment is projected to remain high throughout the year. The health of the banking sector is also improving as the ratio of non-performing loans declines. However, the general election in March – which saw major gains for the populist Five Star Movement and Lega – has left the country politically paralysed, with no new government in prospect more than a month after the vote.

Spain has maintained its position as Western Europe's fastest growing economy, enjoying strong private consumption and high investment. Export growth remains very strong but is expected to slow somewhat this year, while a recovery in the labour market is pushing down unemployment. Market research and official data show the Spanish economy maintained its momentum in the first quarter of the year, bucking the European trend. A further plus is the de-escalation of the independence row between the central government and the region of Catalonia to a low-intensity conflict with, at present, limited economic impact.

FULL STEAM AHEAD IN EASTERN EUROPE

The economic outlook remains robust in Central and Eastern Europe. The Polish economy shows no sign of slowing, with private consumption, investment and exports riding high. The same applies in the Czech Republic, where strong exports are driving an upswing in industrial production. The Hungarian economy is also forging ahead as exports and EU investments climb. Prime minister Viktor Orban's nationalist Fidesz party won an absolute parliamentary majority in the April general election, paving the way for the country's conflict with the EU to continue.

UPSWING IN RUSSIA

The Russian economy is recovering slowly on the back of a rebound in private consumption. Inflation has fallen sharply allowing the Bank of Russia to cut lending rates on a stepwise basis. Industrial production is increasing, though investment growth is slowing. The rise in the oil price in recent months has improved central government finances, with new budget rules preventing the government from spending any oil income above $40 a barrel. Revenue over and above this level must be held in a special fund. Russia remains politically isolated and faces no let-up in the West's economic sanctions. President Vladimir Putin won the presidential election in March without serious opposition and has embarked on a new six-year mandate period.

BUOYANT GROWTH IN THE BALTIC SEA REGION

The Swedish economy is projected to grow by 2.8 percent this year. In Denmark, private consumption and investment are expected to remain strong while growth eases to 1.9 percent. Finland is enjoying a broad-based recovery that is forecast to deliver growth of 2.8 percent. Norway is poised to benefit from rising oil prices, while solid private consumption and higher investment lift the onshore economy. Norwegian GDP is forecast to grow by 2.2 percent this year.

The Baltic states are also growing strongly, though tight labour markets, wage inflation and falling competitiveness are countervailing factors. Estonia is expected to see higher GDP growth next year, in contrast to Latvia and Lithuania where growth is set to ease in 2019.

ASIA

STEADY GROWTH BUT GLOBAL TRADE WAR REMAINS A RISK

Asian nations are experiencing steady growth, helped by a further upturn in the global economy this year that will benefit small, open economies such as South Korea, Taiwan and Singapore in spite of slightly lower import demand in China. Both China and India are projected to see significant export growth this year, though the current tide of protectionism poses a downside risk to Chinese exports, in particular. The threat of a global trade war currently poses the most direct risk to Asian economic growth. The direct effect of US President Donald Trump's steel and aluminium tariffs are seen as small, but threats of increased duties in other areas from both Washington and Beijing in recent weeks have increased tension. The tariffs threaten imports worth $200 billion and cover 30 percent of US imports from China and more than 40 percent of Chinese imports from the US.

GRADUAL EASING OF CHINESE GROWTH

China continues to enjoy high economic growth, but the pace of the country's economic expansion is forecast to slacken gradually from this year's forecast target of around 6.5 percent. This is a natural consequence of China's transition to a model of longer-term economic sustainability. Economic policy will be less expansive in the future as the scale of infrastructure investment declines and measures are undertaken to tighten credit. The government will also continue to reorient the economy towards a consumption-driven growth model, a move that will benefit the growing services sector. GDP growth is expected to ease to 6.4 percent this year and to 6.0 percent in 2019.

Going forward, wage growth, and hence growing private consumption, is likely to become China's primary economic engine. Exports continue to retain a highly important role, however, and the imposition by the US of further tariffs on Chinese imports would hit the Chinese export sector and have a negative impact on growth.

BROAD-BASED GROWTH IN INDIA

India's GDP growth slowed to 6.3 percent last year due to the introduction of a national sales tax and an anti-corruption drive that banned high-value banknotes. It is already clear that these effects were temporary in nature, and economic growth is expected to jump to 7.3 percent this year and reach 7.0 percent in 2019. In 2018, the economic upswing will gain a broader base amid strong domestic demand combined with a favourable international trade environment. Driving growth are a recovery in private consumption and solid levels of infrastructure spending, private investment and export growth (though there is a risk that net exports may be take a hit from higher oil prices). The current account deficit is expected to remain low in 2018 at 2 percent of GDP, but higher oil prices could push this figure higher. Posing a further threat to GDP growth is a series of domestic banking scandals that has resulted in some financial institutions requiring recapitalisation.

High spending by India's growing middle class is spurring the growing services sector, which, together with India's strong international competitiveness, is the foundation on which the country's long-term growth will be based. Infrastructure improvements have been facilitated by measures to broaden the tax base. However, increased investment in structural reform – including spending on infrastructure projects – remains essential for future growth. India needs to do more to raise its low level of labour market participation and to expand access to education. The country will enjoy favourable demographics in the next two decades as the number of people

> **"CHINA'S GOVERNMENT PUSHES AHEAD WITH REBALANCING THE ECONOMY"**

of working age rises sharply. Establishing conditions for higher labour market participation and raising educational standards will be key to ensuring long-term growth.

DOMESTIC DEMAND DRIVING GROWTH IN INDONESIA

Indonesia is forecast to record annual growth of 5.2 percent in each of the next two years. In 2018, investment and public consumption will be the primary economic drivers, with levels of public and private investment rising as a consequence of higher commodity prices and a government commitment to higher infrastructure spending in 2018 and 2019. Exports are enjoying a beneficial international trade environment and are projected to rise by close to 6 percent in 2018 and 2019. These figures are, however, below the growth recorded in 2017 and reflect weaker demand from China for Indonesian imports. Capital inflows have increased in recent quarters, a trend that is likely to continue through 2018. Last year's upgrade by S&P of Indonesia's credit rating from BB+ to BBB- has stimulated capital inflows. However, around 40 percent of Indonesian government bonds are held by foreign investors, raising a risk of significant capital outflows as the US raises interest rates in 2018 and 2019 – especially if rates rise faster than expected.

For long-term economic growth, Indonesia will depend on its youthful population continuing to consume at a steady rate and on strong growth in exports, as well as on solid investment growth. Structural reforms to facilitate infrastructure investment and improved governance will also play a critical role.

JAPANESE CONFIDENCE RIDES HIGH BUT STRUCTURAL CHALLENGES REMAIN

Japan's GDP rose by 1.7 percent in 2017, well above the potential growth rate of 0.6 percent. In 2018, growth is projected to remain relatively high due to the benign international economic climate and its beneficial impact on Japanese exports, though a dip in demand from China is expected to reduce exporters' share of GDP. Business investment is rising steadily due to higher corporate profits and infrastructure construction ahead of the 2020 Tokyo Olympics. Fiscal and monetary policy will support continued growth, which is expected to reach 1.5 percent this year and ease to 0.9 percent in 2019 as the Olympic construction boom wanes and a new consumption tax (from 8 to 10 percent) dampens household spending. Growth in 2017 was high by historical standards and will remain so in 2018, but Japan must nevertheless confront structural challenges if it is to grow faster over the long term. These include a declining working population and excessive government regulation that is hampering productivity gains in some economic sectors.

NORTH AMERICA

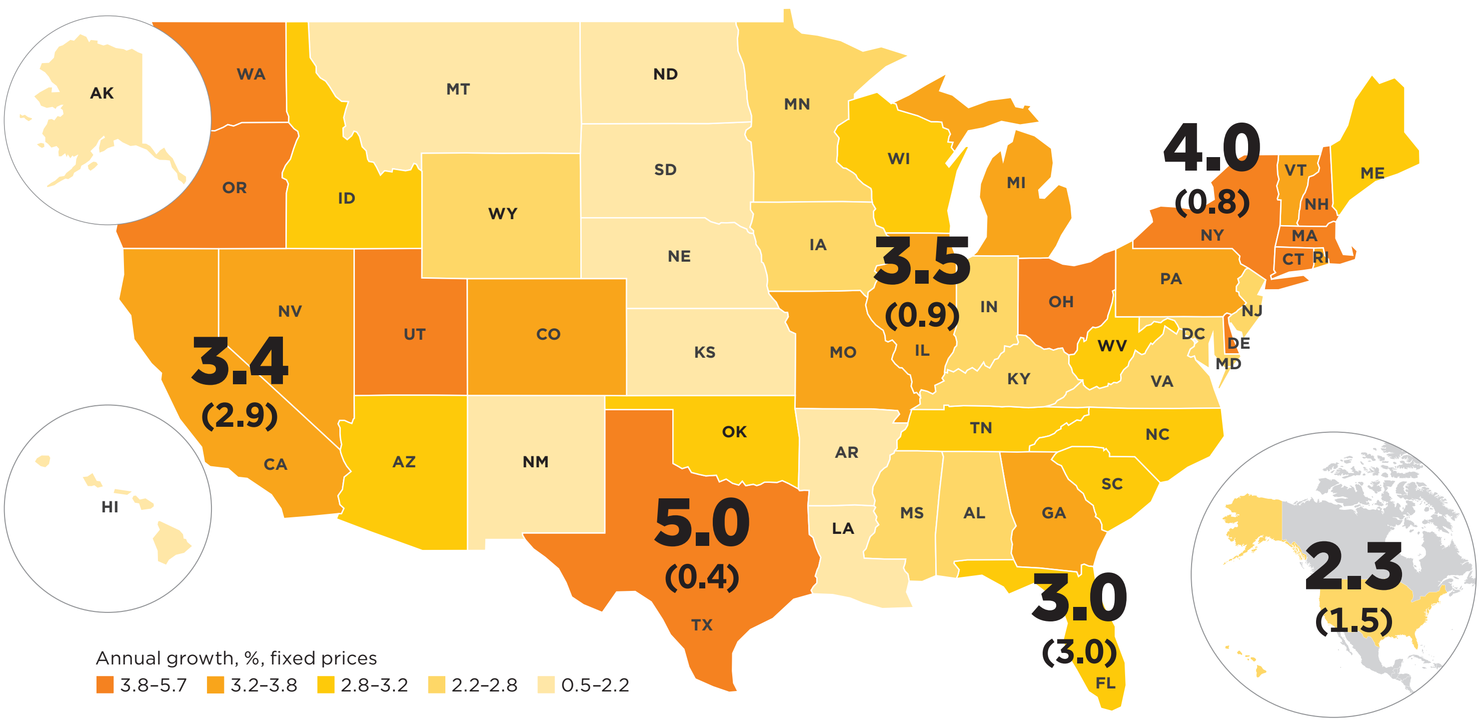
ANXIETY AND OPTIMISM

Volatility surrounding President Donald Trump has become a daily feature of the US political landscape. From an economic standpoint, 2018 has seen a steady exodus of free trade supporters from the administration and their replacement by people more closely aligned with the president's outspoken economic nationalism. In late 2017 Trump scored a major political victory and won praise from large sections of the US business community when Congress passed a Republican tax bill cutting corporate tax from 35 percent to 21 percent and offered an eight-year tax break on corporate earnings that are repatriated to the US.

The tax rebate on foreign-earned profits has raised hopes in political circles of a new US investment boom that will further boost economic growth. However, the tax reform will raise government debt by an estimated $1,800 billion, which can be expected to have an adverse impact on future growth. Today, the public debt amounts to 105 percent of GDP. By the end of 2019 the public debt is expected to reach 107 percent of GDP.

After repeated heavy criticism by Trump of the North American Free Trade Agreement, the US, Canada and Mexico entered a renegotiation process. After an unexpected breakthrough in these talks, it appears that a new draft agreement may be announced in May. The breakthrough followed a US decision to abandon its demand that cars produced in Mexico for sale to the US market must have at least 50 percent US-sourced content. Nevertheless, many details currently remain unresolved and relations between the US and Mexico continue to

GDP GROWTH 2017



NB: The map shows annualised GDP growth for the first three quarters of 2017 in the five biggest state economies: California, Texas, New York, Florida and Illinois. Growth rates for 2016 are shown in brackets. All figures stated in percent.

Sources: Bureau of Economic Analysis (BEA), Business Sweden be strained.

Indeed, relations came under further pressure in April when Trump announced a plan to mobilise National Guard troops to secure the US-Mexico border until a wall is in place. Mexican president Peña Nieto will leave office after fresh presidential elections in July. The Mexican constitution only permits single six-year presidential terms.

The region's political tensions have not, however, afflicted the economic arena and GDP growth for North America is projected to rise from 2.3 percent last year to 2.6 percent this year before easing to 2.4 percent in 2019.

Brazil continues to emerge from a deep recession and after recording GDP growth of 1.0 percent last year is projected to see growth reach 2.4 percent this year and 3.2 percent next year. An upswing in private consumption and investment is expected during 2018 and other positive signals include a fall in inflation to below 3 percent and steady employment growth. Political instability persists, however, following the imposition of a jail term on ex-president Lula da Silva and an ongoing corruption investigation against the current – and deeply unpopular – incumbent, Michel Temer.

US TAX CUTS – A PERFORMANCE-ENHANCING DRUG

The US economy is performing strongly. Private consumption is robust despite only a gentle increase in real incomes. Employment is rising and unemployment is expected to fall to 3.7 percent by year-end. Business investment is increasing and is likely to receive an added boost from the tax cuts passed by Congress. The only major concern is a trade conflict with China, which took a turn for the worse in April and threatens export growth.

The Federal Reserve decided at its March meeting to raise interest rates by 25 basis points to 1.50–1.75 percent. The new Fed chairman, Jerome Powell, is likely to push for faster rate hikes now that inflation has edged above 2 percent, and we expect to see a further three rate rises during the year.

US GDP growth is forecast to rise from 2.3 percent in 2017 to 2.8 percent this year and 2.4 percent in 2019. The impact of government tax cuts and higher government spending will account for an estimated 0.7 percentage points of GDP growth this year and for 0.6 percentage points in 2019. Growth is unevenly distributed at state level, but data for the first nine months of 2017 shows a broad upturn across large parts of the country. Texas was the fastest-growing state, seeing a GDP rise of 5 percent. Growth is also picking up in "rust belt" states like Ohio and Illinois.

NAFTA RENEGOTIATION MAY BOOST INVESTMENT

The Canadian economy has already passed its peak for the current cycle and ended 2017 amid a clear slowdown in private consumption. However, lower household spending has been partly offset by higher investment. A successful NAFTA renegotiation that favours Canadian exporters may boost investment levels further. Employment is still rising but at a slower pace in the context of a tight labour market. Despite high levels of economic activity, inflation remains subdued at around 2 percent. After recording GDP growth of 3.0 percent last year, Canada's economy is projected to grow at 1.8 percent in 2018 and 2.1 percent in 2019.

In Mexico, private consumption is flat, reflecting slower credit growth. Exports continue to perform well and inflation has dropped to 5 percent after a surge in 2017 following the abolition of government fuel subsidies. If the new-found momentum in the ongoing NAFTA negotiations results in a fresh agreement, it is expected that Mexican companies will join their Canadian counterparts in investing more. Mexico's GDP grew by 2.3 percent in 2017 – a modest level for an emerging economy – and is expected to edge down to 2.2 percent this year before climbing to 2.4 percent in 2019.

APPENDIX

SWEDISH EXPORTS, GDP GROWTH AND INFLATION

Country/region	Swedish goods exports, current prices			GDP growth, fixed prices, %			Inflation, %
	Exports 2017, SEK bn	Change 2016-2017, %	% of Swedish exports	2017	2018F	2019F	2017
EUROPE							
Sweden				2,7	2.8	2.1	1.8
Denmark	89.5	7.5	6.9	2.2	1.9	1.9	1.1
Estonia	11.0	13.9	0.8	4.8	3.3	3.8	3.7
Finland	90.3	11.6	6.9	2.6	2.8	1.8	0.8
France	54.8	4.1	4.2	2.0	2.1	1.9	1.0
Netherlands	71.2	10.7	5.5	3.3	2.5	1.7	1.4
Italy	35.2	10.1	2.7	1.5	1.5	1.1	1.2
Latvia	3.7	-3.8	0.3	5.0	5.2	3.7	2.9
Lithuania	8.4	7.7	0.6	3.8	3.4	3.0	3.7
Norway	133.4	7.7	10.2	1.9	2.2	2.0	1.9
Poland	39.8	3.0	3.0	4.5	4.2	3.5	2.0
Russia	18.7	27.9	1.4	1.6	1.8	1.4	3.7
UK	81.3	13.0	6.2	1.8	1.7	1.7	2.7
Czech Republic	11.0	13.1	0.8	4.5	3.7	3.1	2.4
Germany	143.0	14.1	10.9	2.5	2.3	1.8	1.7
AMERICAS							
USA	90.0	3.4	6.9	2.3	2.8	2.4	2.1
Brazil	7.3	8.1	0.6	1.0	2.4	3.2	3.5
Chile	2.8	9.6	0.2	1.6	3.8	3.0	2.2
Colombia	1.0	32.2	0.1	1.8	2.4	3.3	4.3
Canada	10.3	-1.3	0.8	3.0	1.8	2.1	1.6
Mexico	6.5	8.8	0.5	2.3	2.2	2.4	6.0
ASIA, OCEANIA							
Australia	15.1	15.5	1.2	2.3	2.7	2.6	1.9
India	11.4	28.2	0.9	6.3	7.3	7.0	3.3
Indonesia	4.0	34.1	0.3	5.1	5.2	5.2	3.8
Japan	19.5	9.0	1.5	1.7	1.5	0.9	0.5
China	58.5	27.3	4.5	6.9	6.4	6.0	1.5
Malaysia	2.7	-6.6	0.2	5.9	5.2	4.4	3.8
South Korea	12.2	1.5	0.9	3.1	2.8	2.6	1.9
Thailand	4.5	-16.8	0.3	3.9	3.2	3.0	0.7
Vietnam	2.1	42.6	0.2	6.8	6.6	6.4	3.5
MIDDLE EAST, TURKEY AND AFRICA							
United Arab Emirates	6.3	8.3	0.5	1.7	2.7	3.8	2.0
Saudi Arabia	9.2	-1.0	0.7	-0.7	2.0	2.8	-0.9
South Africa	7.3	15.2	0.6	1.3	2.0	2.0	5.3
Turkey	14.0	18.8	1.1	7.3	4.4	3.1	11.1

Sources: Statistics Sweden; Oxford Economics; Business Sweden

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