2.27. SWEDEN

Sweden’s economy performed strongly in the first quarter of 2019 with real GDP rising by 0.6% quarter-on-quarter. This was entirely attributable to strong net exports, mainly of services. By contrast, domestic demand shrank on the back of slumping investment, especially housing investment, and a slight decline in private consumption.

Short-term and leading indicators suggest that domestic demand is set to decelerate markedly on the back of weak investment and a tepid increase in consumption, dampened by moderate wage increases and a cooling labour market. Net exports should benefit from the strong competitiveness of Swedish exporters and the past depreciation of the krona, and are set to become a prominent driver of economic growth in 2019. In all, real GDP growth is forecast to slow down from 2.4% in 2018 to 1.7% in 2019. In 2020, an expected slight strengthening of domestic demand and a lower growth contribution from net exports are set to add up to real GDP growth of 1.5%.

Risks to the outlook are skewed to the downside. As growth has become more oriented towards exports, Sweden remains vulnerable to an economic slowdown among major trading partners as well as to trade disruptions. At the same time, further broad-based declines in the confidence of households and enterprises, coupled with a faster-than-expected deterioration in the labour market could lead to a stronger deceleration in the domestic economy.

HICP inflation is expected to fall to 1.7% in 2019 after 2.0% in 2018, reflecting lower contributions from energy and unprocessed food prices. Core inflation, as measured by the overall index excluding energy and unprocessed food, is set to remain relatively subdued. In the absence of domestic price pressures and with global energy prices set to fall over the forecast period, HICP inflation is projected to remain broadly unchanged at 1.6% in 2020, around the expected rate of core inflation. The rate of wage increases in the upcoming collective wage agreement negotiations will be a key determinant for the inflation outlook in the medium term.