Fast Comment Sweden

Preview of November Riksbank decision

- We change our Riksbank forecast to a 50bp cut
- Disappointing GDP and Riksbank's Business Survey signals weak outlook
- The important message is that interest rates are coming down

We change our Riksbank forecast to a 50bp cut

The Riksbank's main signalling tool, its own policy rate forecast, indicated a 25bp cut in the September monetary policy report, but the press release opened door for a 50bp cut. We continued to expect 25bp-sized rate cuts in November and December, based on our slightly brighter near-term outlook compared to that of the Riksbank. However, data released since the September meeting has been weaker than we and the RIksbank expected, and today's release of the GDP indicator for the third quarter tilts the decision towards a 50bp cut.

Disappointing GDP and Riksbank's Business Survey signals weak outlook

The GDP indicator showed poor momentum in the Swedish economy in the third quarter, with a fall of 0.1 percent q-o-q as well as y-o-y. This is noticeably slower than the Riksbank's forecast at 0.6 percent, y-o-y, and our own forecast at 0.7 percent. (See Continued stagnation; Q3 GDP flash indicator) Another indication of how the Riksbank views the current outlook is revealed by the Riksbank's Business Survey in September, also published today, where the headline reads: "Hard to see any improvement in the near term". Overall, with inflation under control and the Riksbank more focused on protecting economic activity, new information since September should be enough for the board to deliver 50bp.

The important message is that interest rates are coming down

In our view, the decision between a cut by 25bp or 50bp is neither obvious nor decisive for the outlook. The important message is that interest rates are coming down, and that monetary policy is set to reach a neutral stance early next year. While business confidence, in particular in the manufacturing sector, is a cause for concern, lower rates, in addition to fiscal stimulus, will be supportive for activity going forward. This is reflected in a marked improvement in consumer confidence, which is also supported by easing inflation in parallel with strong wage growth. We stick to our view that the Swedish economy is on track for a more rapid recovery than the Riksbank estimates.

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