

Fast Comment Sweden

Broad decline in the Swedish economy in Q2

- Sharp decline in GDP during Q2 mainly due to reduced exports and a decrease in inventories
- Households continue to cut back on consumption
- The Swedish economy is heading for a mild recession

GDP decreased by 0.8 percent q-o-q in Q2

Today's GDP print showed that GDP decreased by 0.8 percent q-o-q and 1.0 percent y-o-y in Q2. The outcome was stronger than the flash estimate (-1.5 percent q-o-q in Q2), but still weaker than the Riksbank's forecast. It was a broad decline, with falling demand both globally and domestically. However, the downturn is mainly explained by reduced exports of goods and a decrease in inventories. Changes in inventories contributed to GDP growth by 0.4 percentage points and net exports contributed negatively to GDP growth by 0.5 percentage points. Residential investment continued to decline. However, other business investments continue to show resilience and increased in Q2 (total investments unchanged q-o-q).

Households continue to cut back on consumption

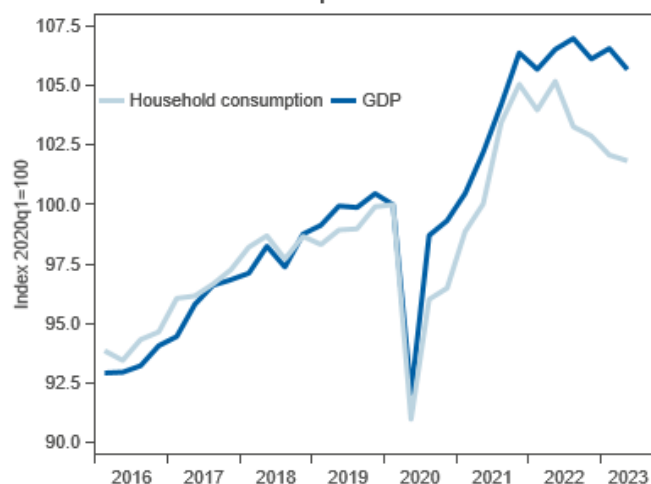
Household consumption continued to decline in Q2 (-0.2 percent q-o-q) as real incomes are squeezed by high inflation and rising interest payments. Consumption has fallen so far over 3.1 percent compared with the peak in the second quarter of 2022, which can be compared to households' real disposable income having decreased by 3.0 percent. The saving rate has therefore remained stable even though it has fallen since its pandemic peak.

Elsewhere, retail sales increased in July (1.0 percent m-o-m). However, compared with July 2022, retail sales are still down over 2 percent as households cut back on both food and durable goods consumption. Slightly less pessimistic tones from consumers could mean that retail sales have stabilised after declining since the beginning of last year. The confidence indicator for retail trade also increased in July, but this remains by far the most pessimistic part of the business sector and companies in the retail sector are planning to cut back their workforces. All in all, we believe retail sales will move sideways over the next couple of months.

The Swedish economy is heading for a mild recession

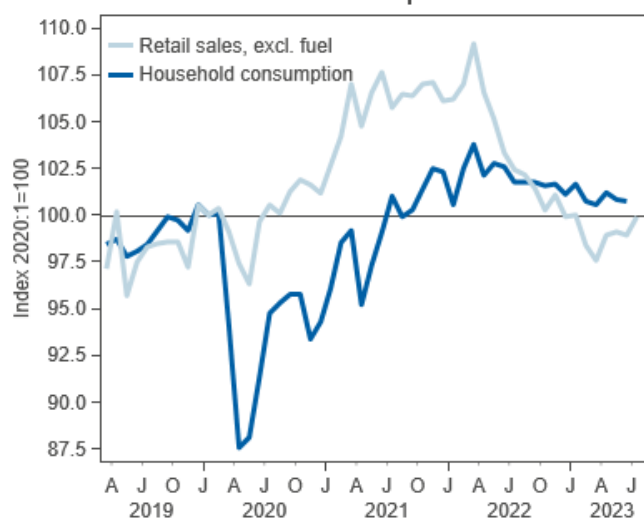
Most forward-looking indicators, such as the NIER Economic Tendency Survey, support our view that GDP will continue to decline in the second half of 2023, a view that also aligns well with the Riksbank. Inflation has started to taper off, but underlying inflation is still far too high. We therefore stick to our forecast for two further 25bp hikes, in September and November, taking the policy rate from 3.75 to a 4.25 percent.

GDP and household consumption



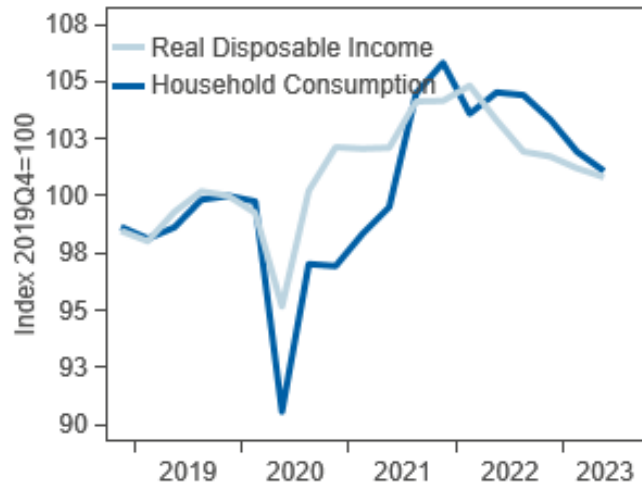
Sources: Macrobond, Statistics Sweden and Handelsbanken.

Retail sales and household consumption



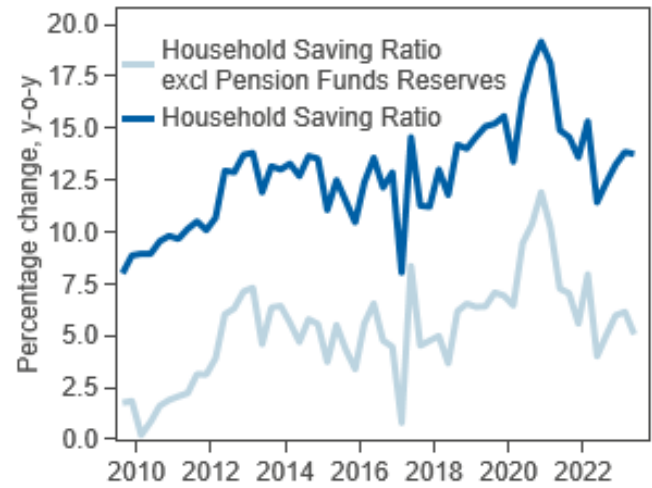
Sources: Macrobond and Statistics Sweden.

Declining consumption & real income



Sources: Macrobond and Statistics Sweden.

Household's savings rate remains high



Sources: Macrobond and Statistics Sweden.

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