

# Handelsbanken

## Press release

Stockholm, October 11, 2016

### **Economic growth has already peaked**

**We expect economic growth in most advanced economies to slow over the coming years, partly due to a tightening of resource utilisation, as well as less of a positive impact from cyclical factors. Structural factors, such as lower trend growth in productivity and the labour force, also play a part. Our main scenario for most advanced economies is an expectation of modest growth, subdued inflation and low interest rates, albeit with high and increasing downside risks. Uncertainty is prevalent, primarily due to political factors in Europe and a looming cyclical downturn in the US.**

The **US** economy continues to expand at a rate close to that of the underlying trend in potential output. Given falling unemployment, low interest rates and rising house prices, household spending will likely remain the main driver of the economy. The contribution from investment will be more modest, a reflection of stagnating profits as lower unemployment is lifting wages. The uncertainty surrounding the presidential and congressional elections may have had some effects. However, once the election is over, we do not anticipate any major deviation from current trends and are confident that economic factors will return to the limelight.

We expect that the Federal Reserve will increase its policy rate by a quarter of a percentage point in December this year, provided that inflation rises in line with the Fed officials' expectation, which is close to our view. For the rest of the forecast period through 2018, we anticipate interest rates being raised at a gradual pace of 25 basis points per year, recognising that may be viewed as a rather benign Fed outlook. Nevertheless, the dollar is expected to gain some traction against the euro next year. It may soften again as the ECB starts to catch up in 2018.

Although GDP growth in the **eurozone** is currently low, we believe that is as good as it gets. We anticipate even lower growth and subdued inflation ahead. Sluggish growth is largely due to structural factors, such as slowing productivity and labour force growth, but cyclical factors also play a part. GDP growth appears to have reached its peak for this cycle. The tailwinds that have lifted growth over the past couple of years are now waning. There are also reasons to worry about the political outlook. The upcoming elections in France and Germany may well test European cohesion further.

We expect only minor adjustments to the ECB's asset purchase programme in 2016. In 2017, when growth slows, pressure on the ECB to take further measures is likely to increase. In our view, a slowdown could lead to additional monetary stimulus, despite the ECB's current resistance to such projects.

With regard to the **UK**, the focus is on Brexit. Prime Minister May has indicated that her government will initiate formal exit negotiations with the EU in March. The EU's free movement of labour will be a particularly difficult sticking point. The UK government appears to be signalling a very restrictive stance. The market is worried and the pound has dropped to record lows as a result. We anticipate a slow and grinding deceleration in growth for the UK rather than an economic collapse. We expect no further interest rate cuts from the Bank of England.

Growth in **China** has stabilised, as the likelihood of an economic hard landing has decreased. Nevertheless, we continue to forecast that growth will decline gradually over the next couple of years. The overheated property market and the associated stock of credit is probably the main risk to our forecast. However, we believe that the authorities are well aware of the risks and that they have the necessary tools to avert a full-blown crisis.

In **India**, growth is likely to remain strong. Prime Minister Modi's ambitious reform agenda to increase competition and improve infrastructure is progressing steadily. In contrast, commodity-dependent **Brazil** and **Russia** have been in recession for the past two years. We think growth in those countries will turn positive but remain low, thereby helping to lift overall growth in emerging economies.

The **Nordic countries** are very dependent on the international environment. Partly due to somewhat better prospects for the oil sector, Norway may look forward to slightly higher growth during our forecast period. The Finnish economy is trending sideways, while Denmark appears to be lagging even the eurozone.

In **Sweden**, we expect growth to be close to its potential rate in the coming years. Household spending is likely to remain an important driver, which will be supported more by wages than by strong job growth ahead. Employment already has started to stall, while unemployment is rising. Immigration flows in recent years twinned with poor integration is likely to lead to a greater skills mismatch and higher permanent unemployment.

Inflation is expected to rise gradually as cost pressures increase. Our forecast is for inflation to reach the Riksbank's target of 2 percent by the end of 2018. A major headwind is our forecast for a stronger krona, buoyed by robust growth and a tightening of monetary policy. We believe that the Riksbank will start to tighten monetary policy at the end of 2017 and that the policy rate will reach 0.50 percent by the end of 2018.

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## Real GDP forecasts

	2015	2016f	(Previous forecast 2016)	2017f	(Previous forecast 2017)	2018f	(Previous forecast 2018)
Sweden	3.9	3.2	3.0	2.3	2.2	2.1	2.1
Norway	1.6	0.7	-0.1	1.2	0.8	1.3	1.2
Norway Mainland	1.1	0.9	0.8	1.7	1.4	1.9	1.9
Finland	0.2	1.0	1.0	1.0	1.2	0.8	0.9
Denmark	1.0	0.6	0.4	0.5	0.5	0.5	0.5
EMU	1.6	1.5	1.5	1.1	1.0	1.3	1.3
USA	2.6	1.5	1.7	2.1	2.2	1.7	1.7
UK	2.2	1.9	1.6	0.9	0.9	1.3	1.3
The Netherlands	2.0	1.6	NA	1.0	NA	1.3	NA
Japan	0.5	0.6	0.5	0.7	0.6	0.6	0.6
Brazil	-3.8	-3.1	-2.7	1.0	1.2	2.3	2.2
Russia	-3.7	-0.8	-0.4	1.1	1.3	1.5	1.5
India	7.2	7.5	7.5	7.7	7.7	8.0	8.0
China	6.9	6.6	6.6	6.3	6.3	5.9	6.1
Poland	3.6	3.3	3.5	3.3	3.5	3.5	3.3

Source: Handelsbanken Capital Markets

## Interest rate forecasts

<b>Policy rates</b>	<b>Oct 7</b>	<b>Q4 2016</b>	<b>Q1 2017</b>	<b>Q2 2017</b>	<b>Q3 2017</b>	<b>End 2017</b>	<b>End 2018</b>
Sweden	-0.50	-0.50	-0.50	-0.50	-0.50	-0.25	0.25
US (range midpoint)	0.375	0.625	0.625	0.625	0.625	0.875	1.13
Eurozone	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30
Norway	0.50	0.50	0.50	0.25	0.25	0.25	0.25
Denmark	-0.65	-0.65	-0.65	-0.65	-0.65	-0.45	-0.20
UK	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>10y govt. yields</b>	<b>Oct 7</b>	<b>Q4 2016</b>	<b>Q1 2017</b>	<b>Q2 2017</b>	<b>Q3 2017</b>	<b>End 2017</b>	<b>End 2018</b>
Sweden	0.28	0.30	0.40	0.50	0.55	0.60	0.70
US	1.73	1.70	1.70	1.70	1.70	1.70	1.60
Eurozone (Germany)	0.02	-0.05	-0.05	-0.05	-0.05	0.00	0.00
Norway	1.29	1.20	1.20	1.10	1.10	1.10	1.20
Denmark	0.09	0.10	0.10	0.15	0.15	0.20	0.25
Finland	0.16	0.05	0.05	0.05	0.05	0.15	0.20
UK	0.96	0.80	0.90	0.95	1.00	1.00	1.20

Source: Handelsbanken Capital Markets

## Currency forecasts

	Oct 7	Q4 2016	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
EUR/SEK	9.66	9.35	9.25	9.15	9.00	8.85	8.85
USD/SEK	8.64	8.58	8.64	8.55	8.41	8.27	7.90
GBP/SEK	10.77	10.75	10.51	10.40	10.23	10.06	10.17
NOK/SEK	1.07	1.03	1.03	1.02	1.00	0.99	1.01
DKK/SEK	1.30	1.26	1.24	1.23	1.21	1.19	1.19
CHF/SEK	8.82	8.66	8.64	8.47	8.33	8.12	8.12
JPY/SEK	8.38	8.17	8.00	7.77	7.65	7.52	7.06
CNY/SEK	1.30	1.26	1.27	1.24	1.22	1.18	1.13
EUR/USD	1.12	1.09	1.07	1.07	1.07	1.07	1.12
USD/JPY	103.17	105.00	108.00	110.00	110.00	110.00	112.00
EUR/GBP	0.897	0.870	0.880	0.880	0.880	0.880	0.870
GBP/USD	1.25	1.25	1.22	1.22	1.22	1.22	1.29
EUR/CHF	1.10	1.08	1.07	1.08	1.08	1.09	1.09
EUR/DKK	7.44	7.44	7.45	7.45	7.45	7.46	7.46
SEK/DKK	0.77	0.80	0.81	0.81	0.83	0.84	0.84
USD/DKK	6.66	6.83	6.96	6.96	6.96	6.97	6.66
GBP/DKK	8.30	8.55	8.47	8.47	8.47	8.48	8.57
CHF/DKK	6.80	6.89	6.96	6.90	6.90	6.84	6.84
JPY/DKK	6.45	6.50	6.45	6.33	6.33	6.34	5.95
EUR/NOK	9.04	9.10	9.00	9.00	9.00	8.90	8.75
SEK/NOK	0.94	0.97	0.97	0.98	1.00	1.01	0.99
USD/NOK	8.09	8.35	8.41	8.41	8.41	8.32	7.81
GBP/NOK	10.08	10.46	10.23	10.23	10.23	10.11	10.06
CHF/NOK	8.25	8.43	8.41	8.33	8.33	8.17	8.03
JPY/NOK	7.84	7.95	7.79	7.65	7.65	7.56	6.98
USD/BRL	3.22	3.30	3.40	3.60	3.70	3.80	4.00
USD/RUB	61.99	65.00	66.00	66.00	65.50	64.50	61.50
USD/INR	66.61	67.50	67.50	68.00	68.50	69.00	70.00
USD/CNY	6.67	6.80	6.80	6.90	6.90	7.00	7.00
EUR/PLN	4.28	4.30	4.30	4.30	4.25	4.15	4.00
EUR/RUB	69.29	70.90	70.60	70.60	70.10	69.00	68.90

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