October 19, 2015

Medium and long term economic outlook for Sweden

Jesper Hansson, Director of forecasting, NIER

Outline

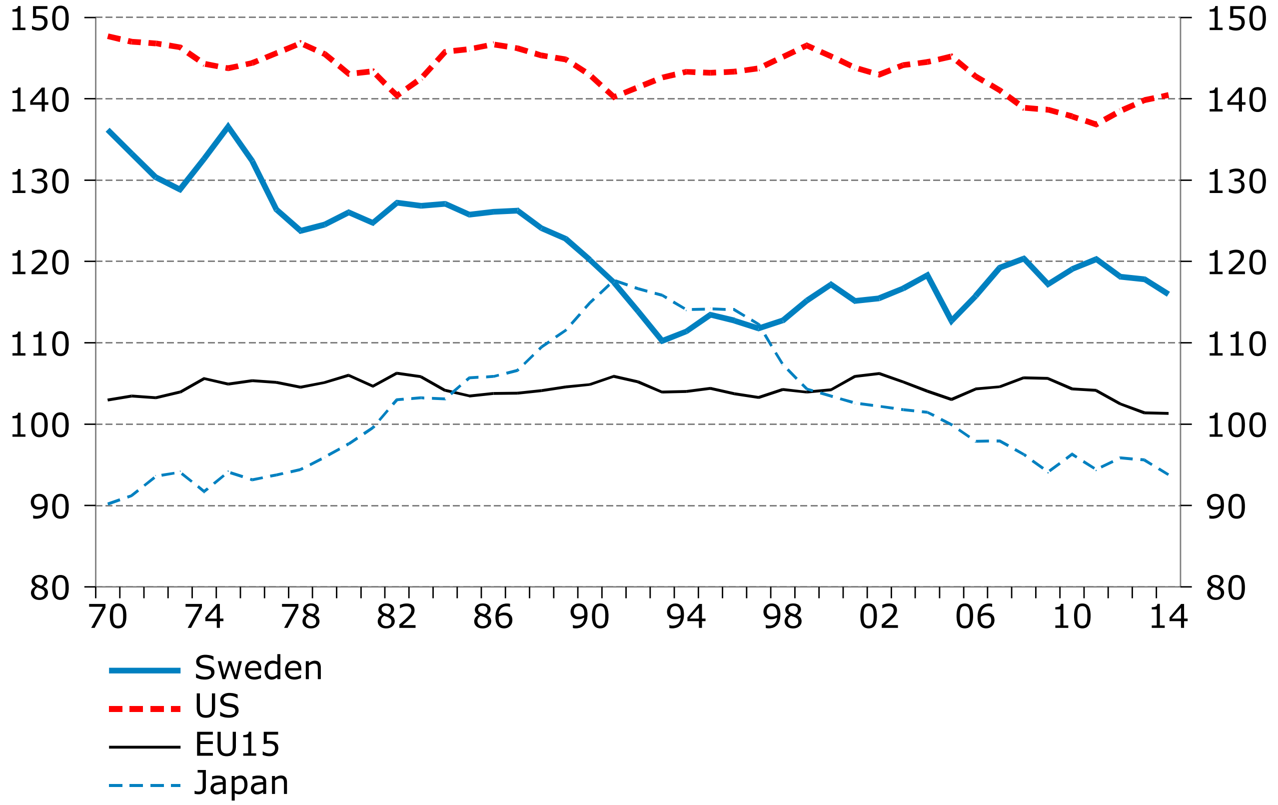
- Background
- Forecast/Scenario until 2024
  - Assuming gradual return to old normal
- Long-term scenario until 2060
- A new normal?
  - Secular stagnation in the world economy?

Background

- Sweden’s historical performance
- The importance of demography to interpret standard measures

Sweden is around 15 per cent richer than the OECD average – fairly stable since 2000

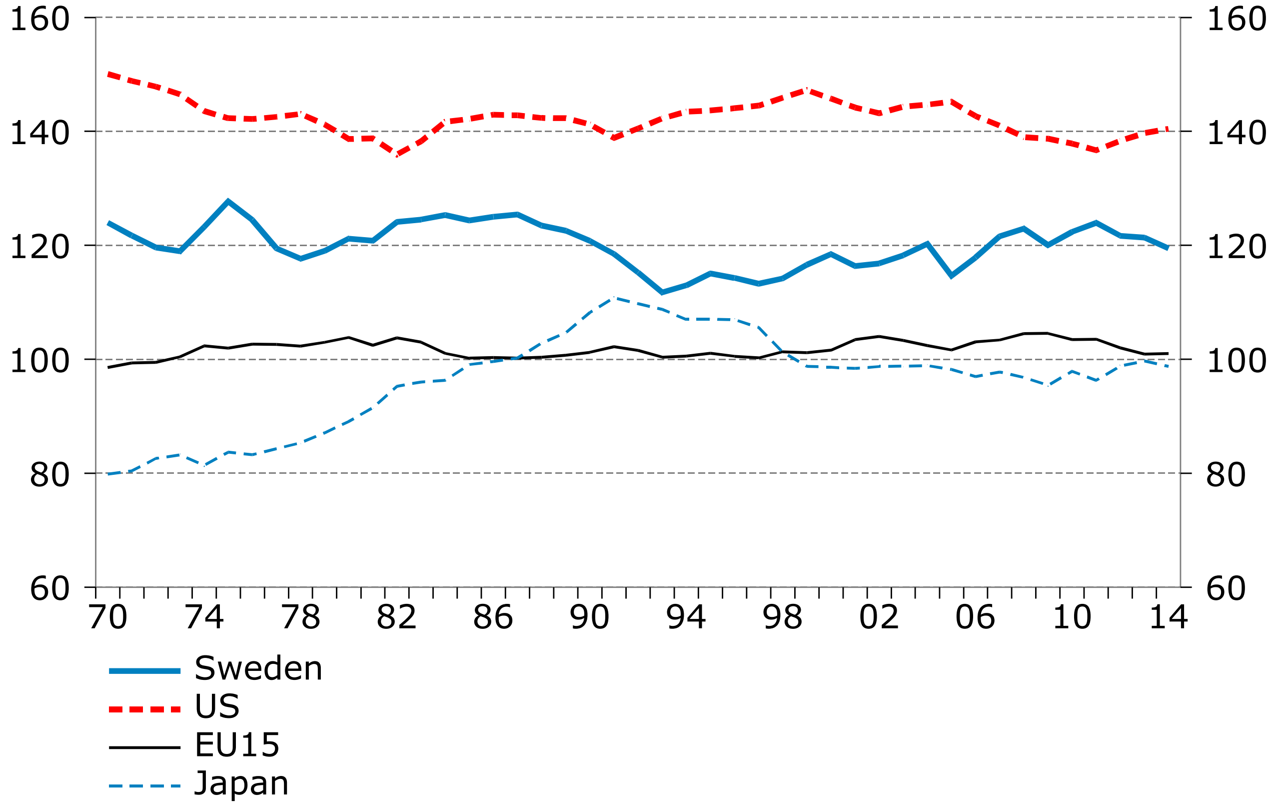
Purchasing power adjusted GDP per capita, index OECD=100



Sources: OECD and NIER

The decline since 1970 can be explained by demographics

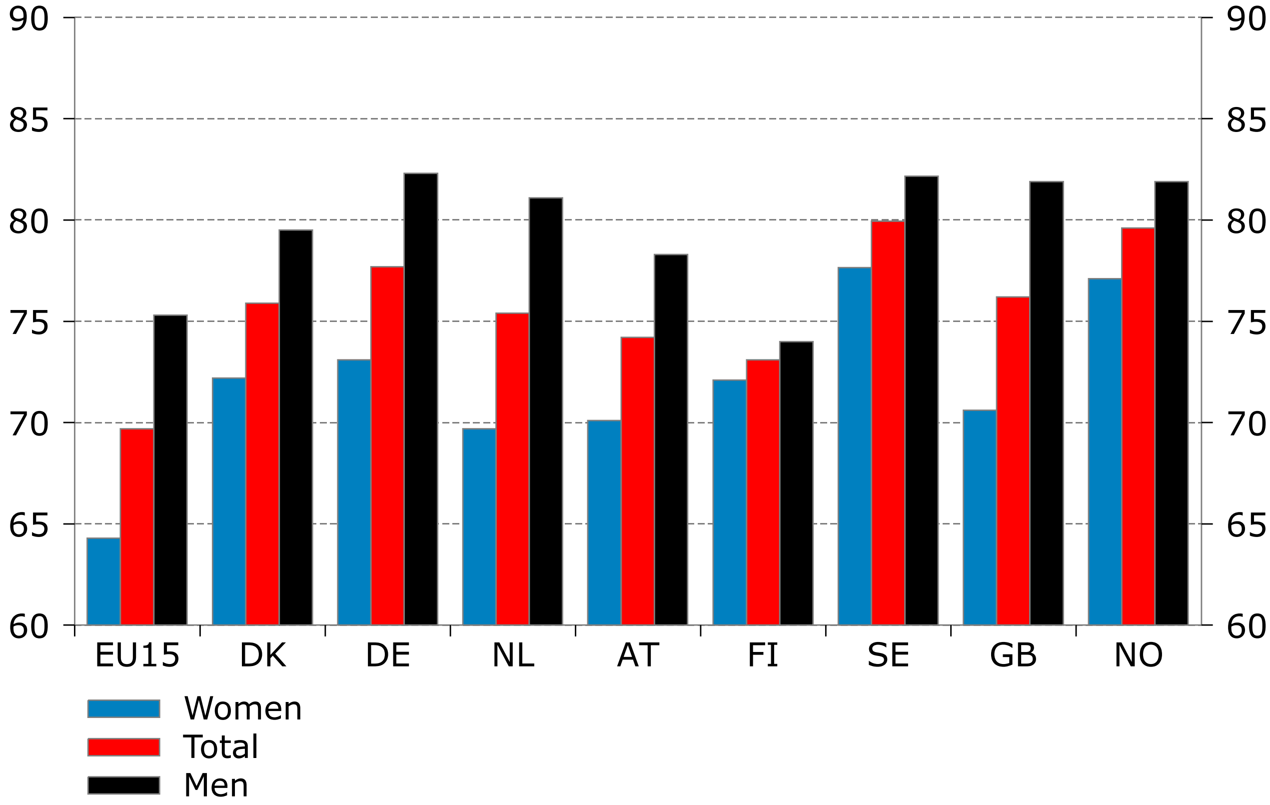
Purchasing power adjusted GDP per inhabitant 20-64 year, index OECD=100



Sources: OECD and NIER

High employment in Sweden explains most of the difference with the EU15

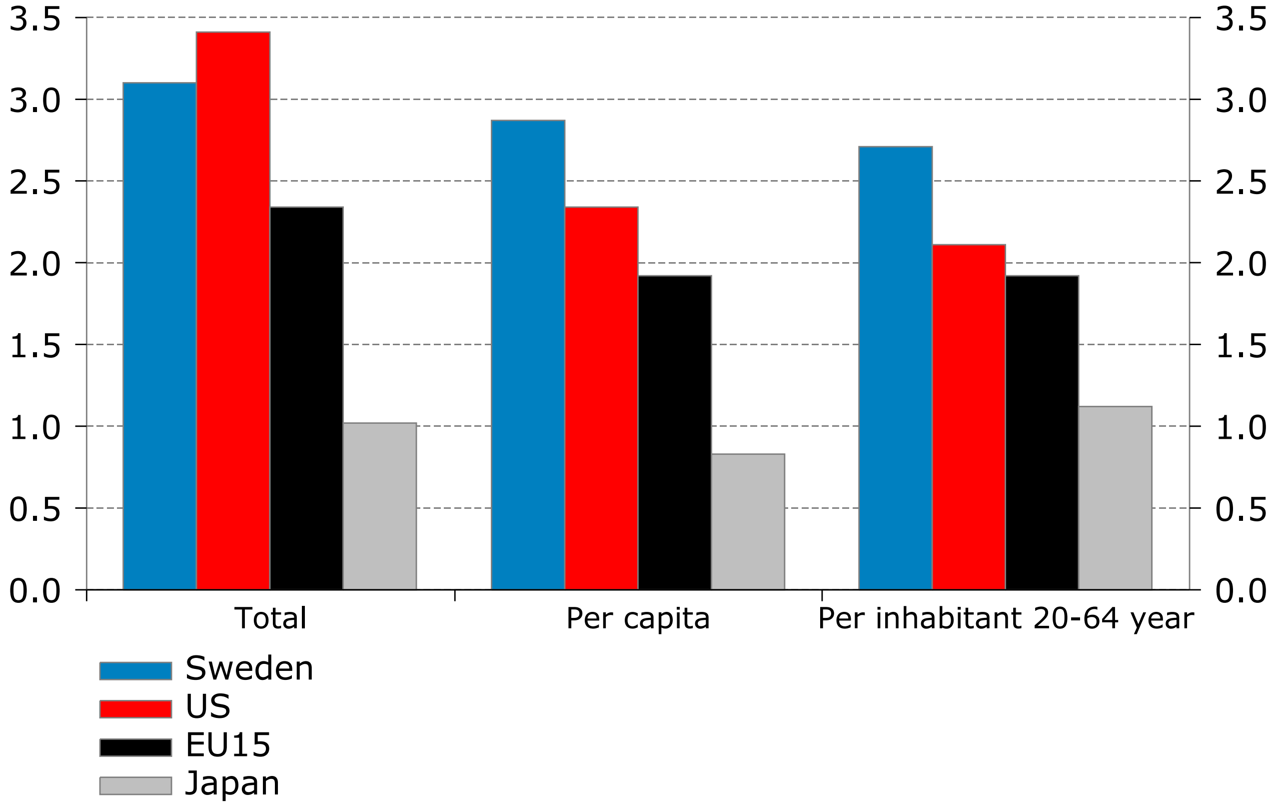
Employment to population ratio 2014, 20-64 years, per cent



Source: Eurostat

Strong growth in Sweden before the global financial crises

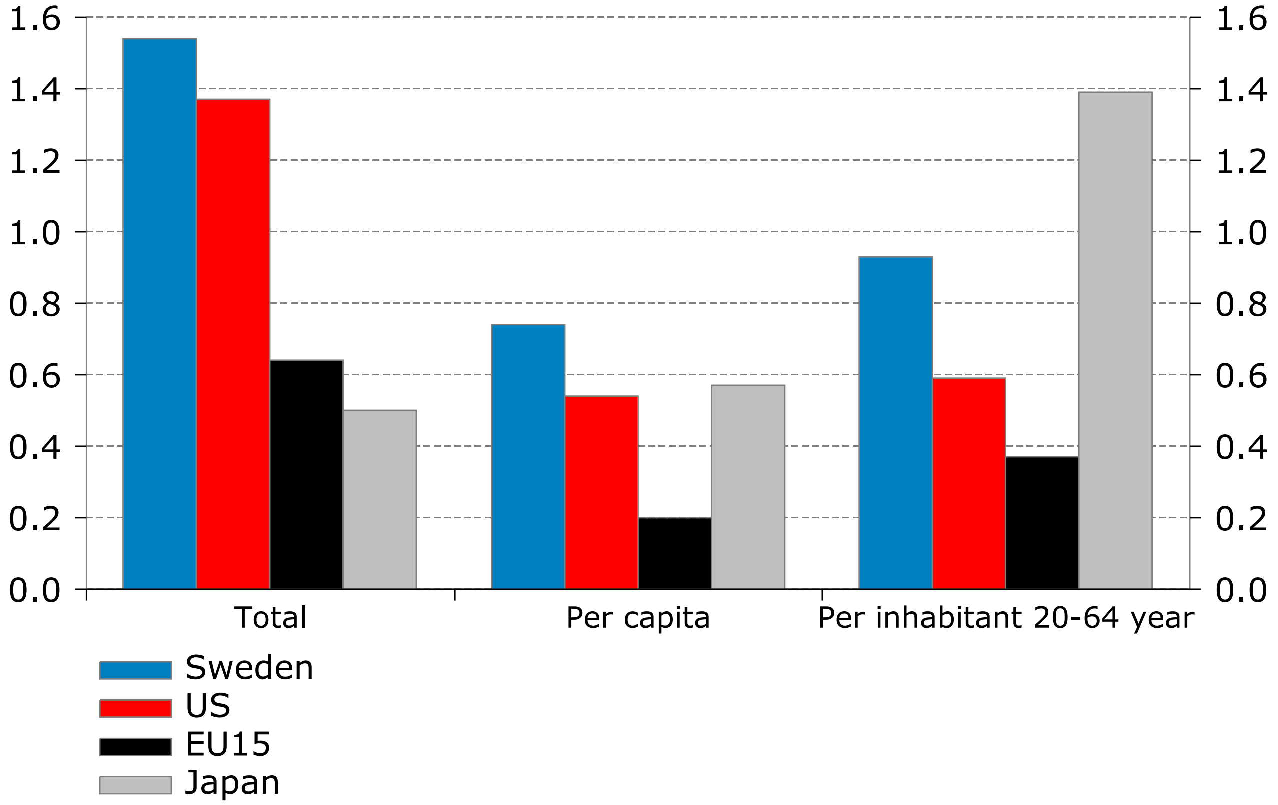
GDP 1995−2005, average annual percentage change



Sources: OECD and NIER

Much weaker performance since 2005 – note the importance of demographics

GDP 2005−2014, average annual percentage change



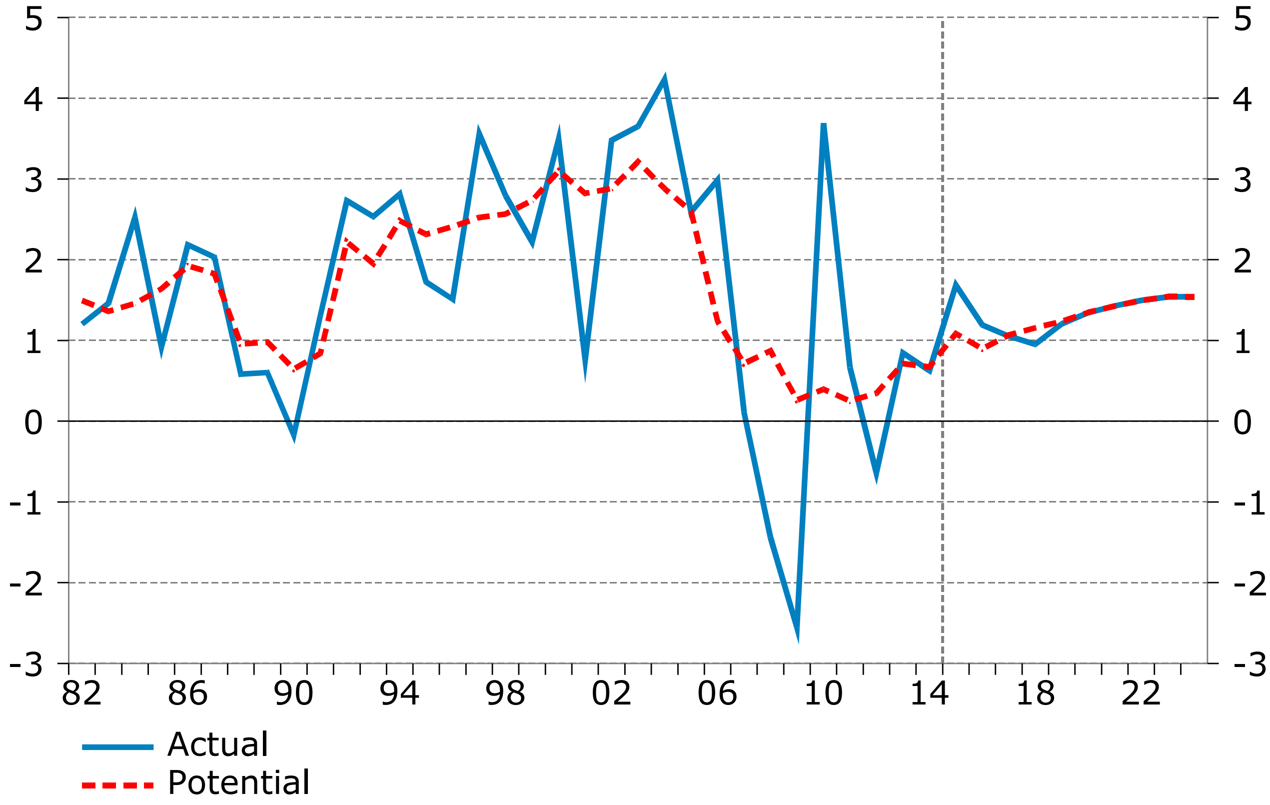
Sources: OECD and NIER

Medium and long term scenario for Sweden

- A gradual return to the old normal

Significant slow down in productivity growth beginning in 2007 – medium term scenario assumes gradual return to historical average

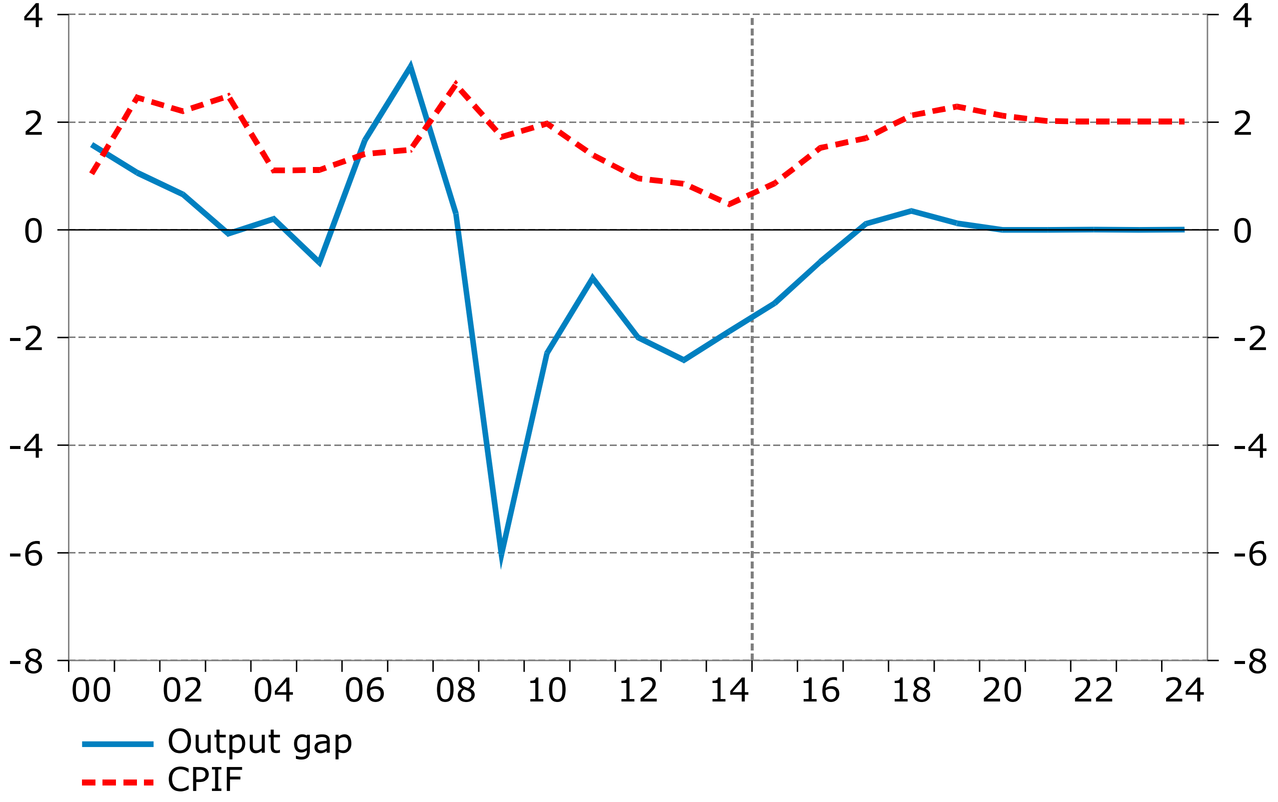
GDP per hours worked, annual percentage change



Sources: Statistics Sweden and NIER

Resource utilisation increases with closed output gap in 2017 – international recovery an important driver

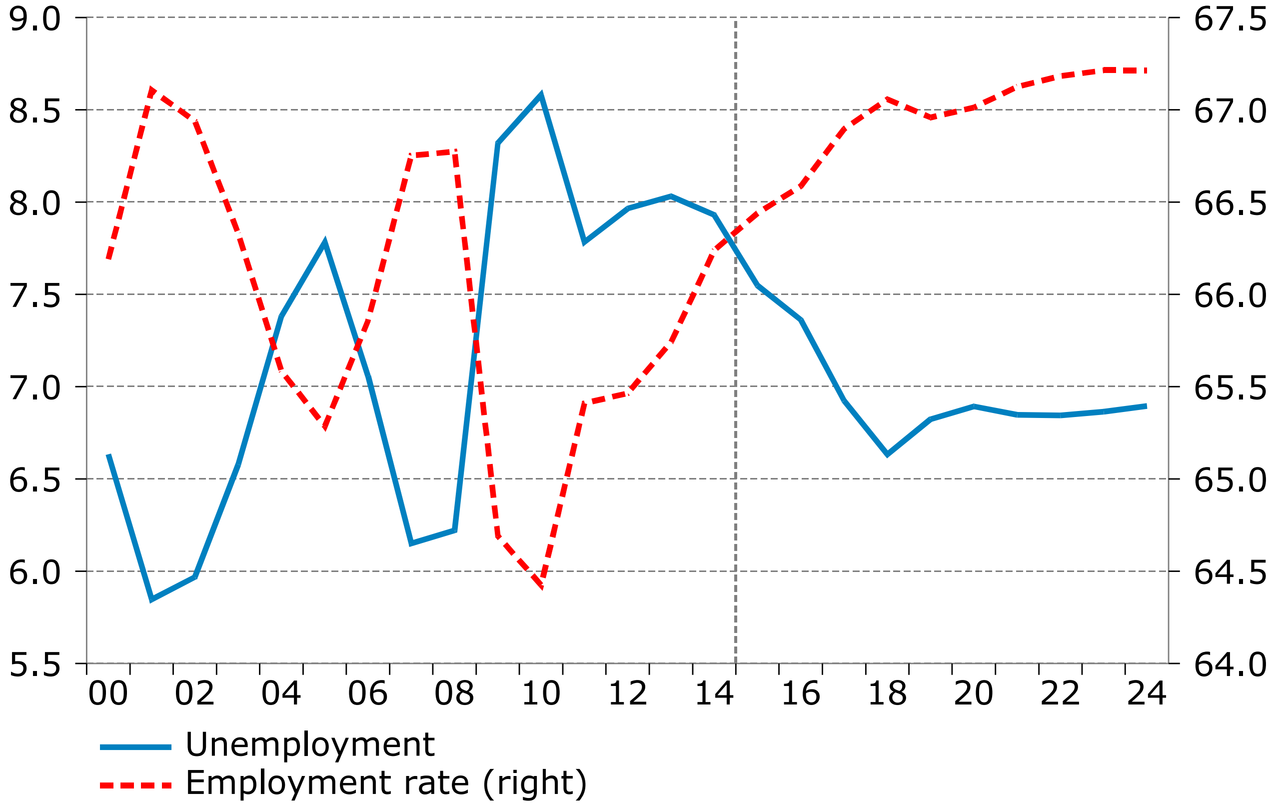
Output gap and core inflation, per cent



Sources: Statistics Sweden and NIER

The labour market recovers, but most of the unemployment is structural

Unemployment and employment, per cent of labour force and population 15-74 year respectively



Sources: Statistics Sweden and NIER

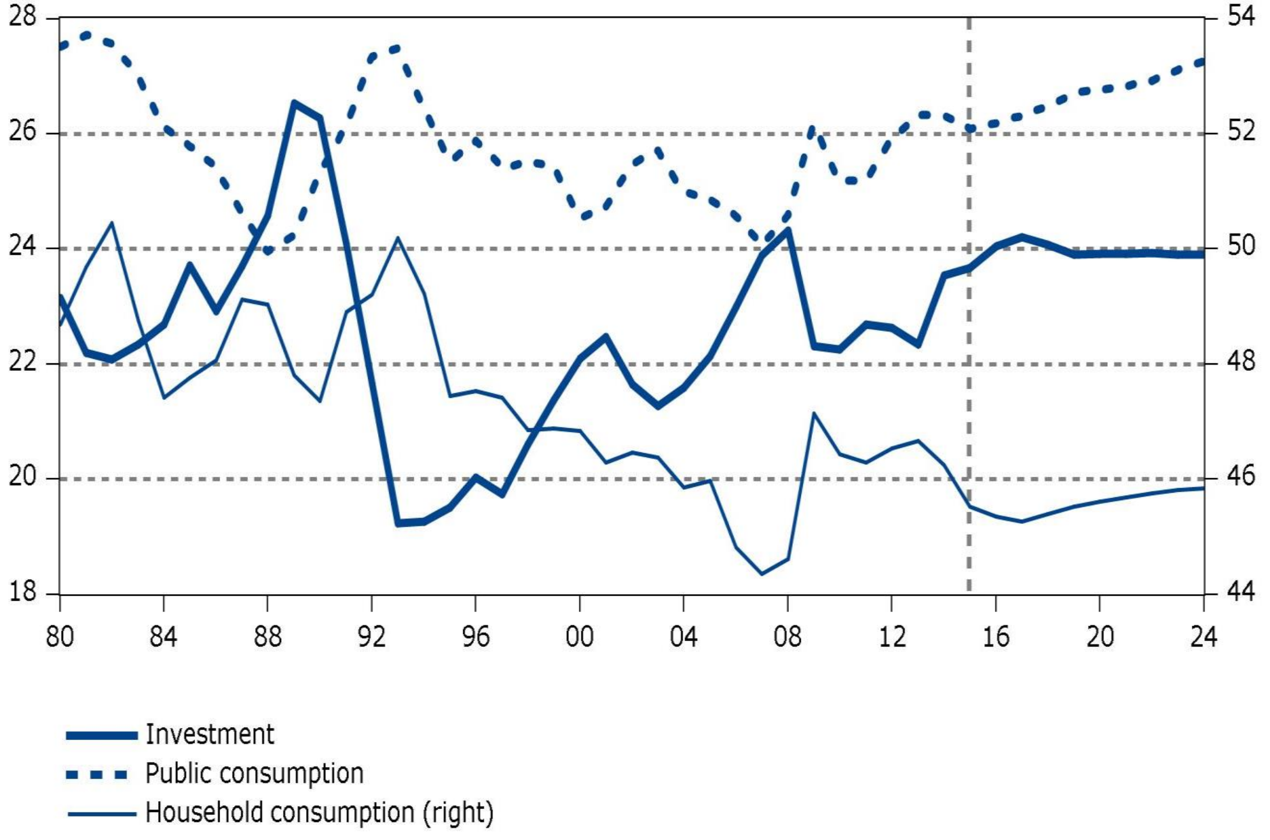
Nominal interest rates assumed to normalise – may be proved wrong, but as long as positive not of very big importance for resource utilisation

Per cent

Sources: Riksbank and NIER

Consumption is increasing as a share of GDP

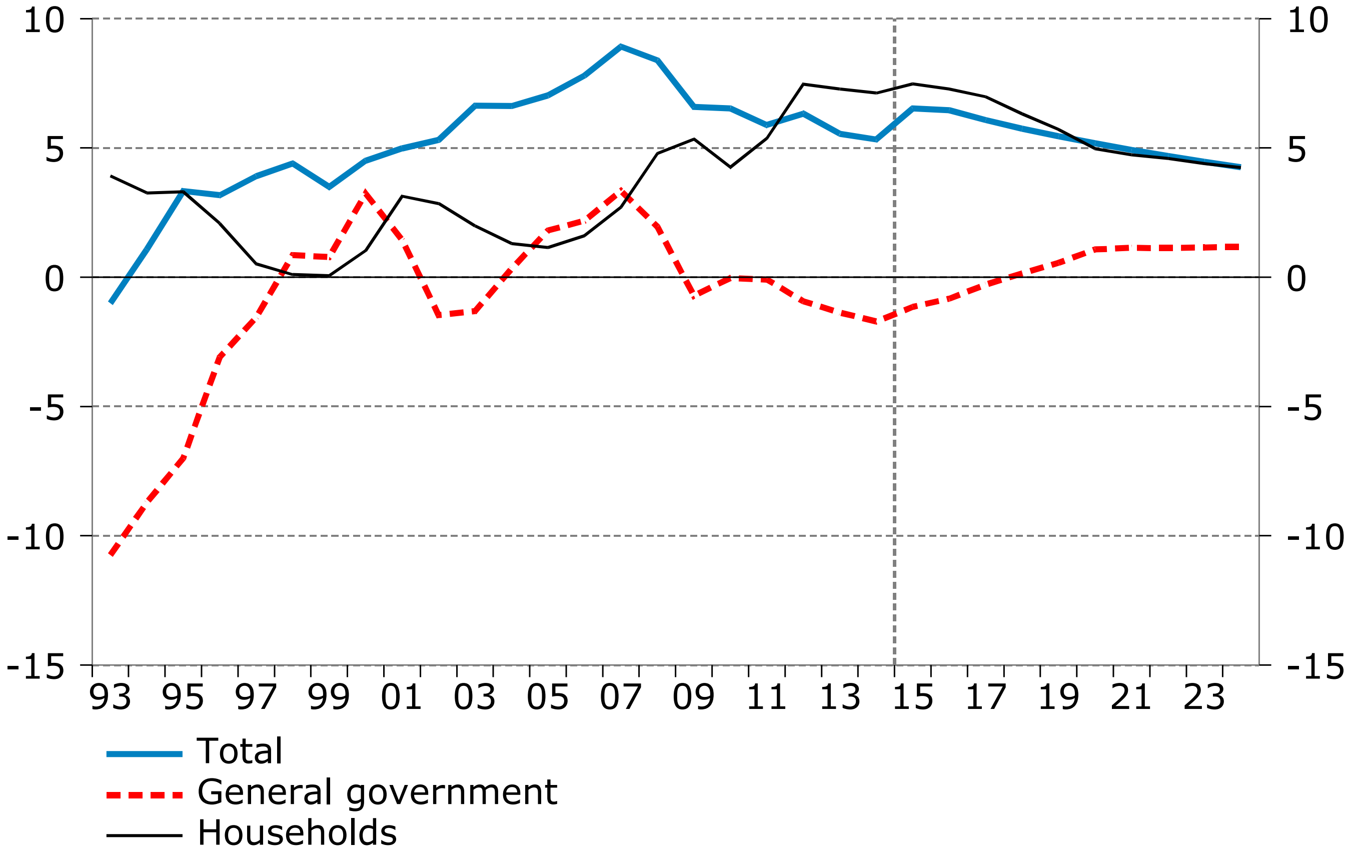
Per cent of GDP



Sources: Statistics Sweden and NIER

Current account surplus (total net lending) is assumed to shrink as households reduce savings

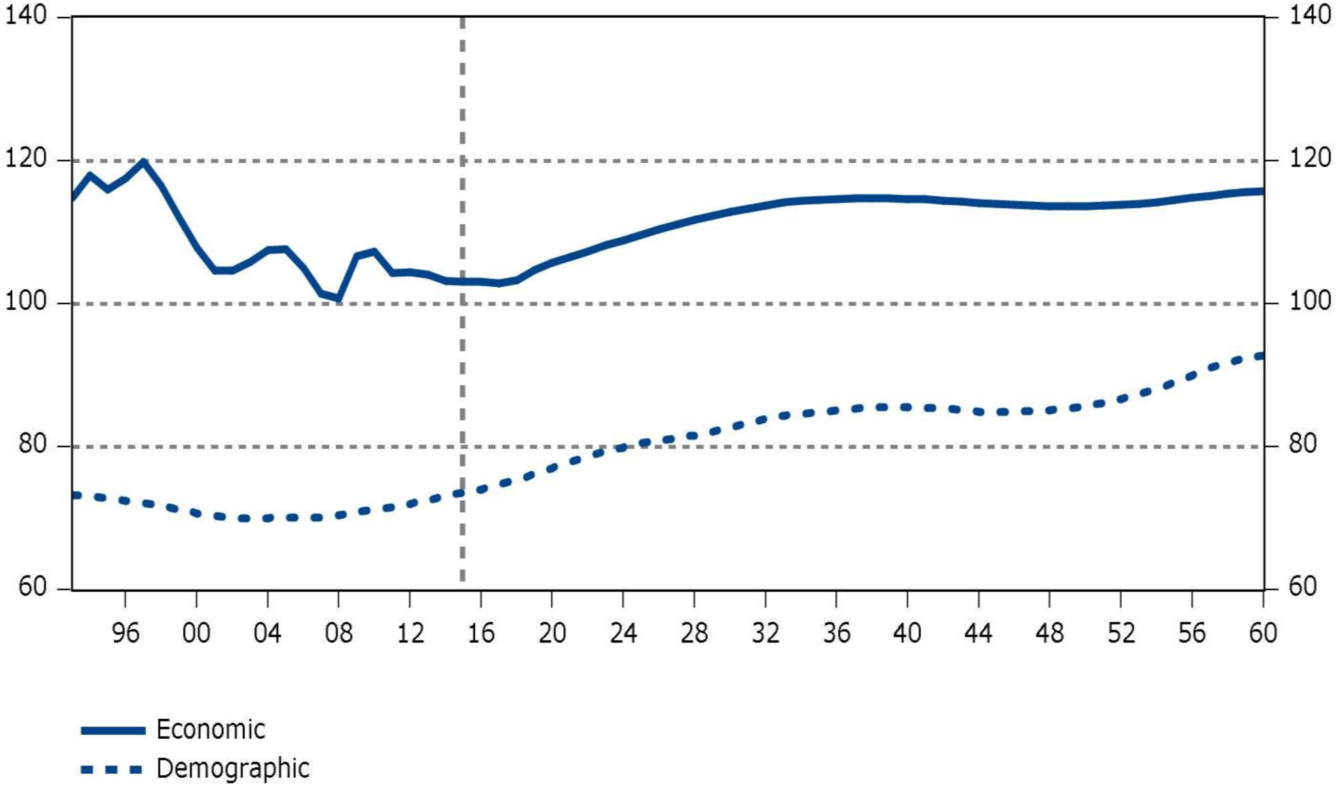
Net lending in various sectors, per cent of GDP



Sources: Statistics Sweden and NIER

Rising dependency ratio – mitigated by increased employment among elderly

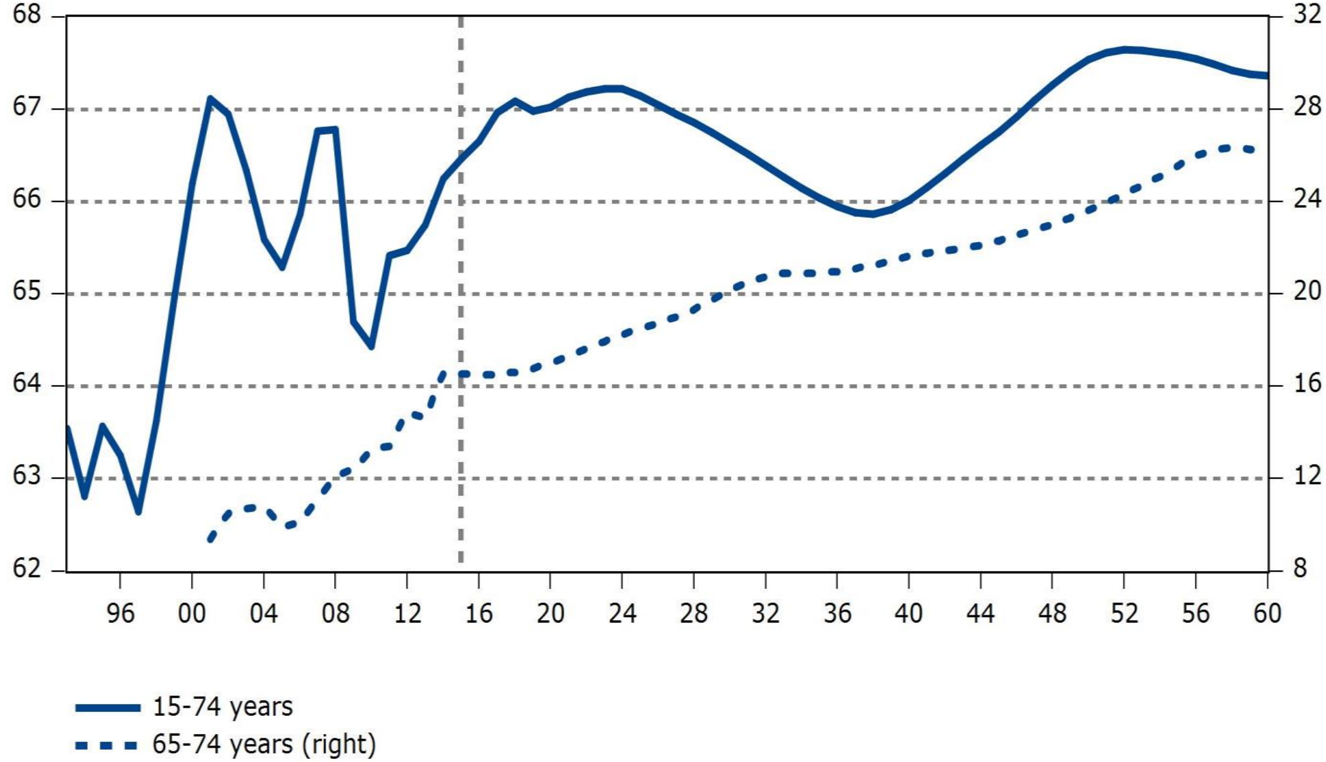
Ratio of not employed population to employment and ration of persons out of working age (20-64 years) to working age population, per cent



Sources: Statistics Sweden and NIER

Rising employment ratio due to assumed continued upward trend in participation ratio of elderly people

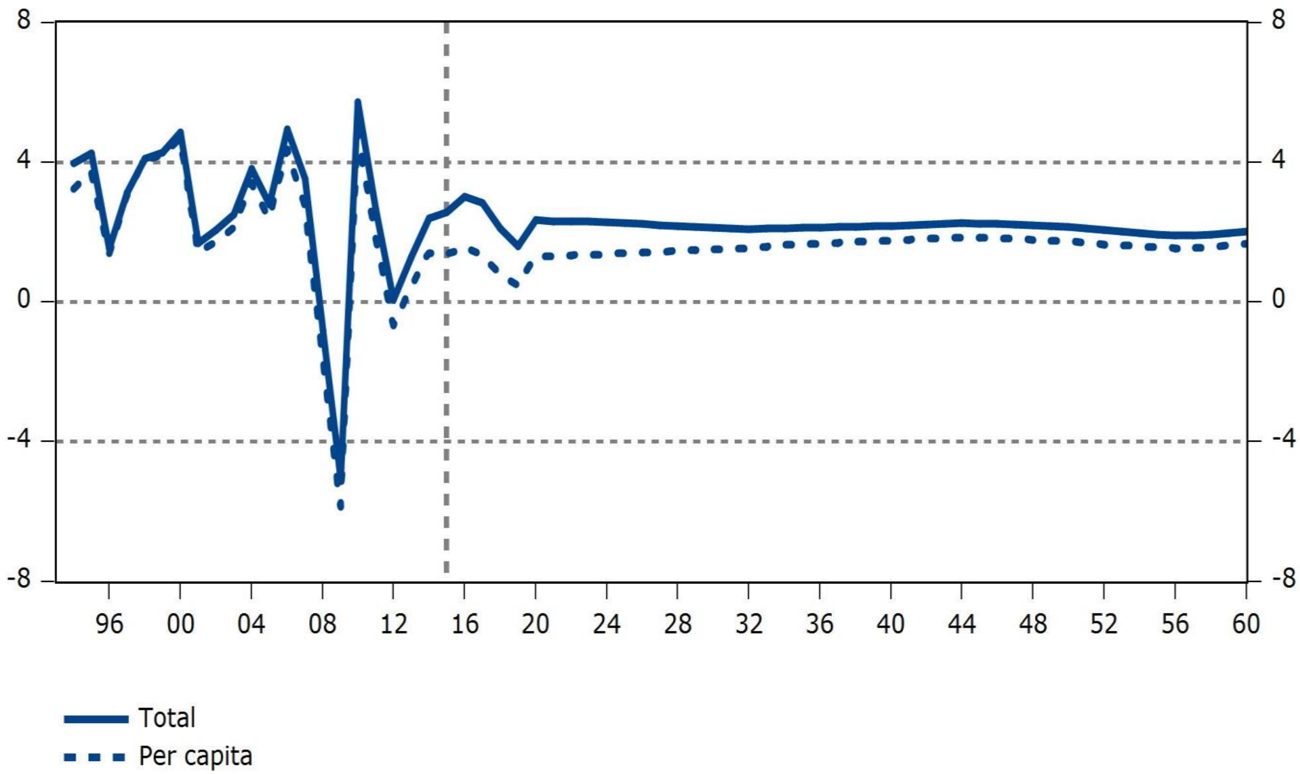
Employment to population ratio, per cent



Sources: Statistics Sweden and NIER

Productivity growth in line with historical average and rising dependency ratio gives lower per capita income growth

GDP, annual percentage change



Sources: Statistics Sweden and NIER

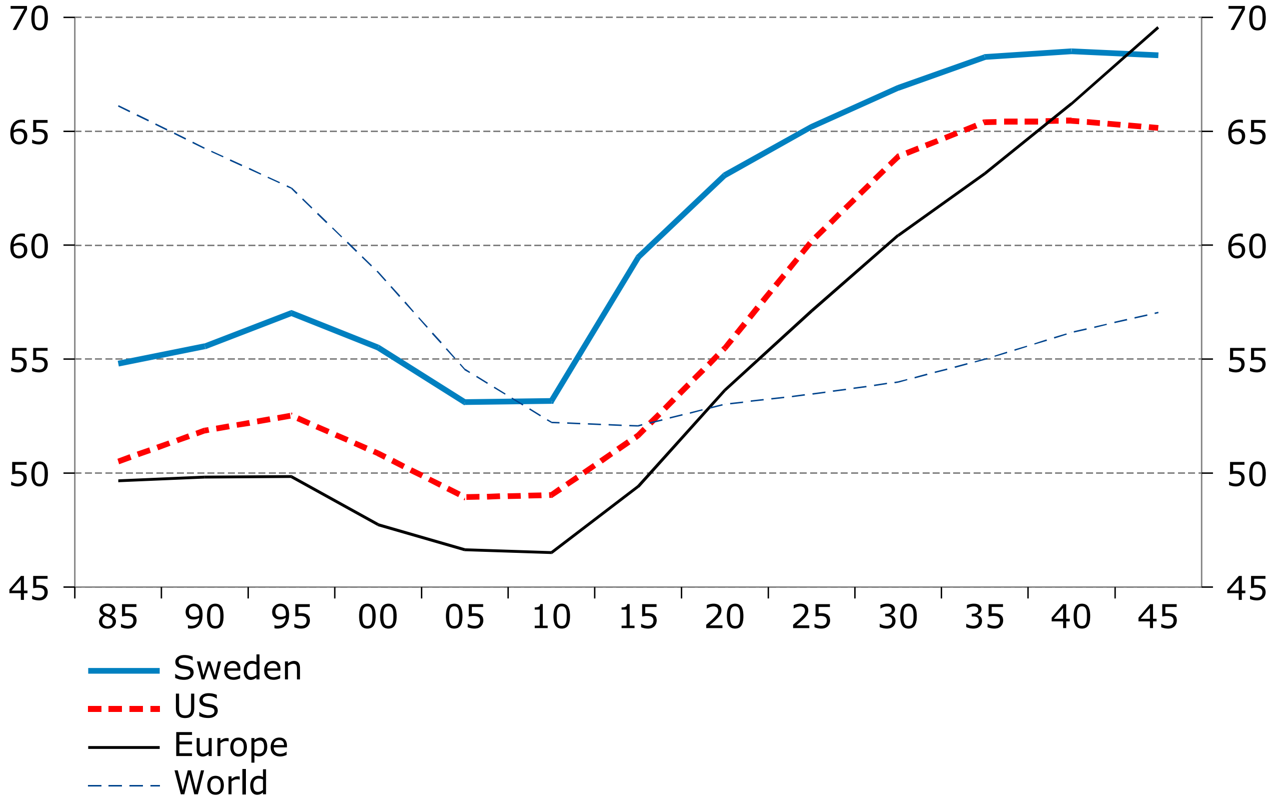
A new normal?

Many reasons for low real interest rates

- Temporary
  - Hung over from debt super cycle
  - Consolidation of public finances
- More persistent
  - Strong demographic motives for saving
  - Rapid increase in income in China and other EM countries
- Unclear horizon
  - Rising income inequality the last 30 years
  - Skill biased technological change
  - Reduced progressivity in income taxes
  - ⇒ Higher average household saving ratio
  - How will these factors develop in the future?

Strong turn around in global demographics with rising dependency ratio

Share of young (<15) and elderly (>65) in relation to working age population (15-64), per cent



Source: United Nations

Structural demand deficit in the global economy?

- Short run, 2015-2016
  - Cyclical upswing in capital formation and consumption

- Medium term, say until 2024
  - Low potential growth
    - Slow productivity and labour force growth

    ➡ low investment demand

  - Continued high aggregate household saving
    - Cut backs in governmental pension schemes
    - Inequality (rich people have higher saving ratios than poor people)

  - Equilibrium real interest rate low or even negative, difficult to achieve with low (expected) inflation

- Long run
  - Rising dependency ratios

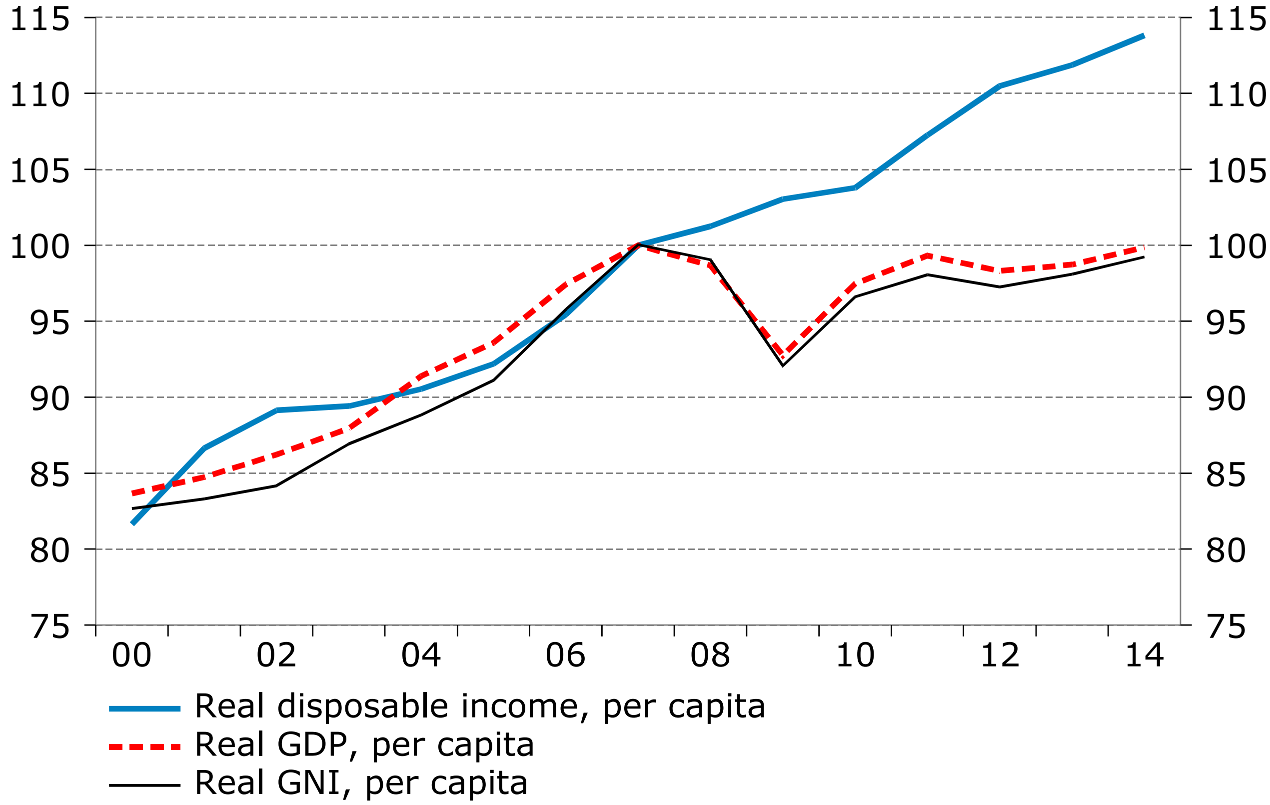
    ➡ lower household savings, but when?

- **Return to old normal, but it may take a long time!**

Thank you for your attention!

A caveat: GDP per capita flat since 2007 but healthy growth in household disposable income

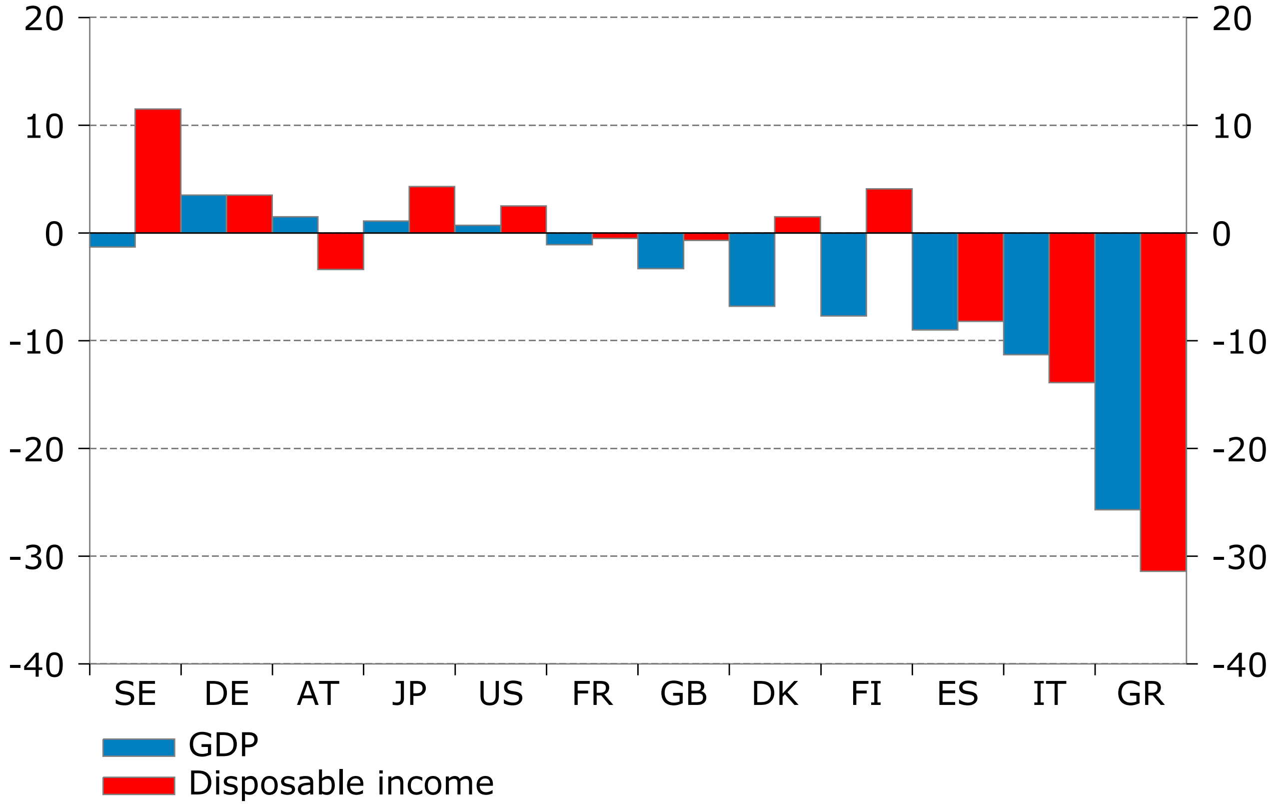
Index 2007=100



Source: Statistics Sweden

Comparatively weak GDP-growth in Sweden, but strong growth of household disposable income

Per capita, percentage change between 2007 and 2013



Sources: National sources and NIER