BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

SPLIT ENVIRONMENT

GLOBAL ECONOMIC OUTLOOK

September 2024

THE WORLD ECONOMY LIMPING

The world economy is stumbling and not really gaining momentum, even though inflation has fallen back down towards targets and key interest rates are on the way down. Global growth is expected to remain at around 2.7 percent per year through 2026. This is just below the average for the years before the pandemic, 2015-2019. However, the differences between different regions are large. Europe is facing a recovery, although the German economy is currently at a standstill. North America slows down with a likely soft landing in the US. At the same time, a slowdown is visible in Asia, where growth is above all slowing down in the region's largest economy, China.

The fact that the three growth engines USA, Germany and China are in a relatively weak position with high public debt does not help matters. Policy rates are certainly on the way down, but the high public debt means that the scope for fiscal stimulus is limited. In addition, the world economy is burdened by geopolitical tensions and increased protectionism. This means that expectations among companies and households are dampened and both investment and consumption are held back.

However, Sweden is an exception. The Swedish economy consists of taken well equipped and facing a turnaround even if households hesitate.
A less tight monetary policy, in combination with good public finances and room for fiscal policy measures, as well as a stable labor market with disciplined parties, provides the conditions for a rapid recovery. Domestic demand will take over as the growth engine in the Swedish economy next year. Exports lose momentum but recover as demand from important export markets returns.

All in all, we can state that demand is coming back, but that it will take a little longer than expected. It is therefore high time to see the possibilities and invest for the future!

Lena Sellgren
Chief economist

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THE GLOBAL
THE ECONOMY

Moderate speed in the world economy

Geopolitical concerns remain

Policy rates on the way down

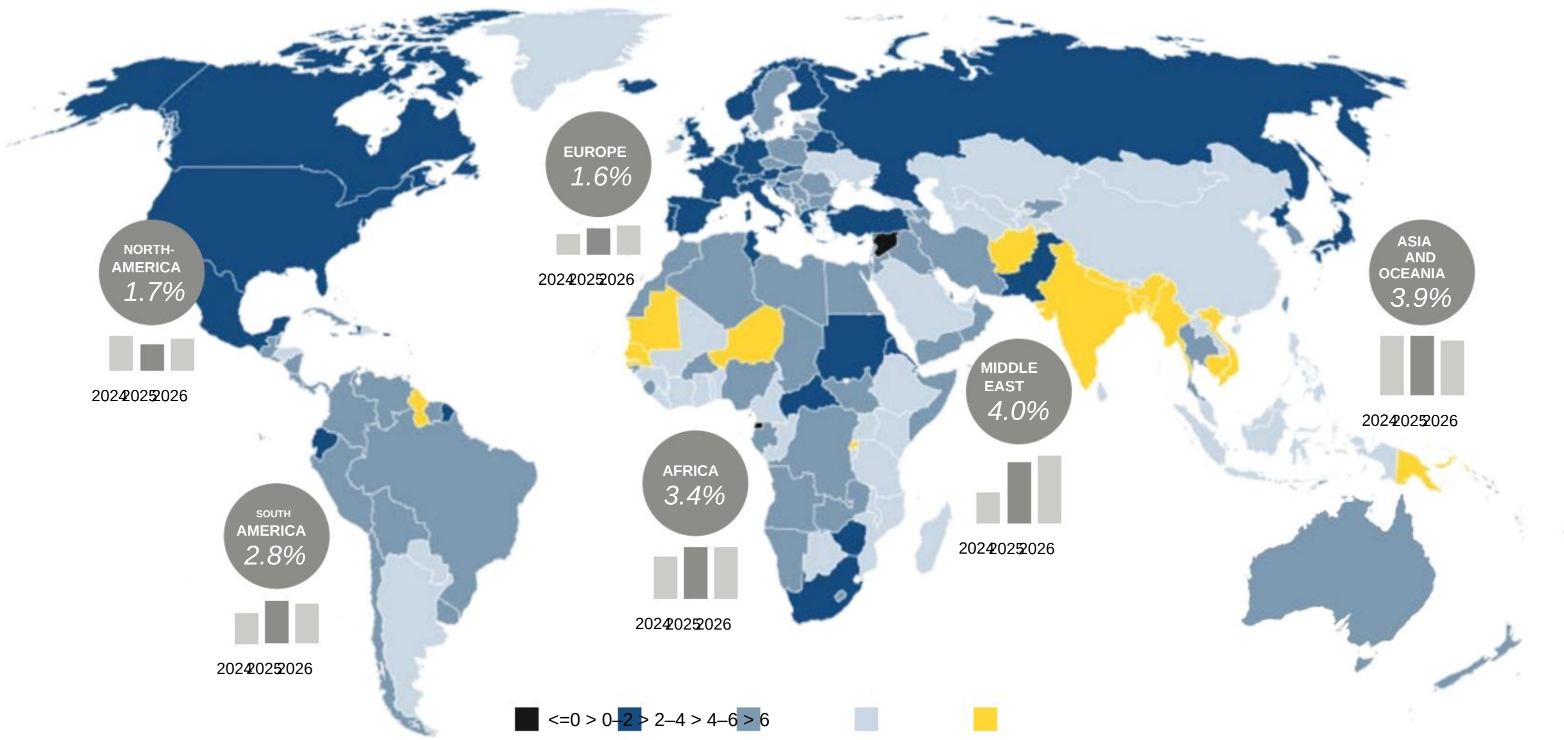
After a period of setbacks and moderate growth, the global economy is facing a turnaround, but it will take time for consumption and investment to pick up. A weak start to 2024, marked by modest growth figures and where global financial markets have reacted alarmingly strongly to relatively modest negative macroeconomic outcome figures, is expected to lighten somewhat during the rest of the year. But the global growth rate, even if it picks up somewhat, is not really getting going.

Despite the fact that the global growth rate appears to pick up somewhat in the second half of 2024, it is clear that we are moving towards a more fragmented development in the world economy. Economies will have different conditions to increase the rate of growth, where some will be able to make significant investments and stimulate growth, while others face more profound structural problems and, in addition, a high public debt. This requires careful consideration for decision-makers, who need to understand both the short-term and, above all, the long-term economic consequences of their decisions.

One of the most important reasons why growth in the world economy does not pick up more speed is that several large economies in 2024 are still in a relatively weak position and do not have the opportunity to conduct either stimulating financial or monetary policies. It is clear that we are touching

GLOBAL GROWTH ACCELERATES SLOWLY IN 2025

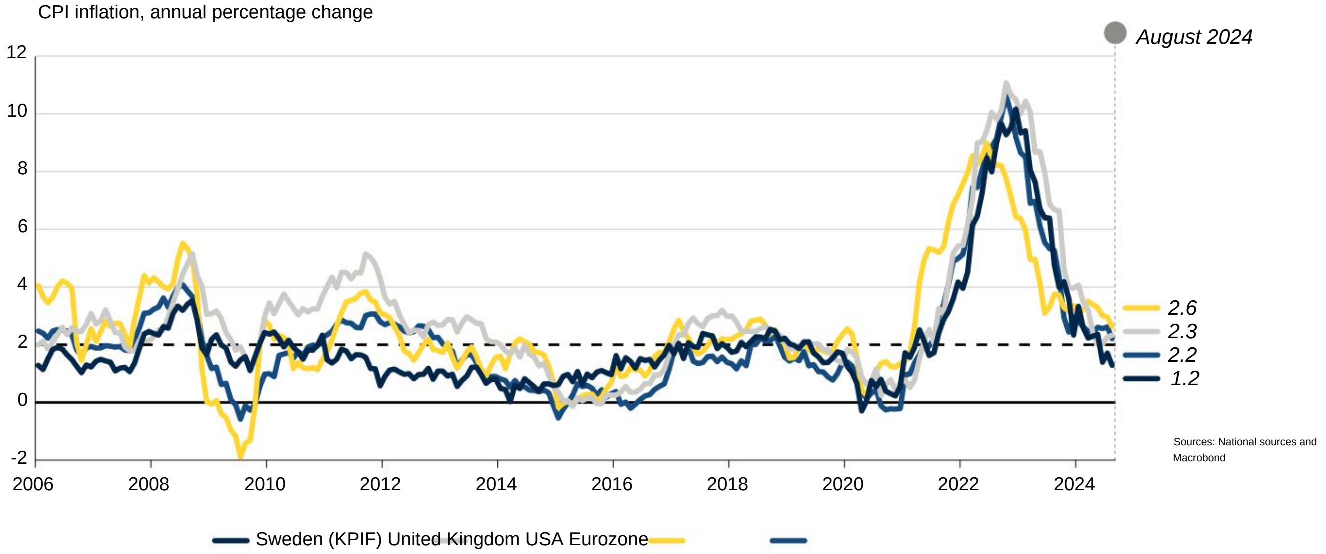
GDP growth 2025, constant prices, annual percentage change, forecast



Sources: Oxford Economics and Business Sweden

INFLATION CLOSE TO THE 2 PERCENT TARGET

CPI inflation, annual percentage change



Sources: National sources and Macrobond

Note: The consumer price index (CPI) measures the average price development for all private domestic consumption. The CPI is the usual measure for compensation and inflation calculations in Sweden, but it is the CPIF that is the measure that the Riksbank uses in its inflation target.
In KPIF, household mortgage interest rates are kept constant. This means that KPIF is not affected by changes in interest rates for household mortgages.

away from the high growth rates that characterized parts of the 2010s. Instead, we see a world economy where expectations among both companies and consumers are more subdued, and where the focus is on managing challenges such as inflation, geopolitical unrest and an increasingly protectionist trade climate.

QUESTION MARK ABOUT CHINA

2024 has given a fragmented picture of the world economy where it has become clear that economies will emerge from the slump of recent years at widely different rates. North America has shown not insignificant growth during the first half of the year, even if the signals during the summer pointed towards a somewhat more cautious picture. In Europe, where growth has generally been slow in recent years, some economies, especially tourism-intensive Southern European economies, have been able to benefit from a growing service sector together with an increasingly diversified economy that has created a more stable footing, while others, such as Germany, hit harder by global headwinds, such as China's slowing growth rate and high energy prices, is now facing both structural and cyclical challenges.

Asia presents a continued divided picture. India continues to be an economic upstart, with high stable growth driven by both domestic demand and increased investments in, for example, infrastructure and research and development. At the same time, China is facing significant challenges, even though the country is approaching its official growth target of around 5 percent. The challenges facing China are many and complex, and include both domestic structural problems and international tensions. The ongoing conflict surrounding China's so-called overcapacity, which is the result of heavy investments and production increases in several sectors, such as steel, electric vehicles and solar panels, has led several economies, including the EU, to impose or plan to impose tariffs on imports from China to protect their industries.
This creates an increasingly complicated trading environment, where China's low state-supported prices squeeze competition and create frustration in economies where domestic production cannot match the price levels of Chinese companies.

There are also other factors contributing to the global unrest. Conflicts in the Middle East and Russia's war of invasion in Ukraine affect the energy markets in Europe. An escalation of these conflicts could lead to further disruptions in supply chains and push up inflation. In the same way, the US presidential election contributes to uncertainty about what the US's future economic policy will look like, especially what

GLOBAL GDP GROWTH FAILS
THE SAME HEIGHTS AS BEFORE THE PANDEMIC

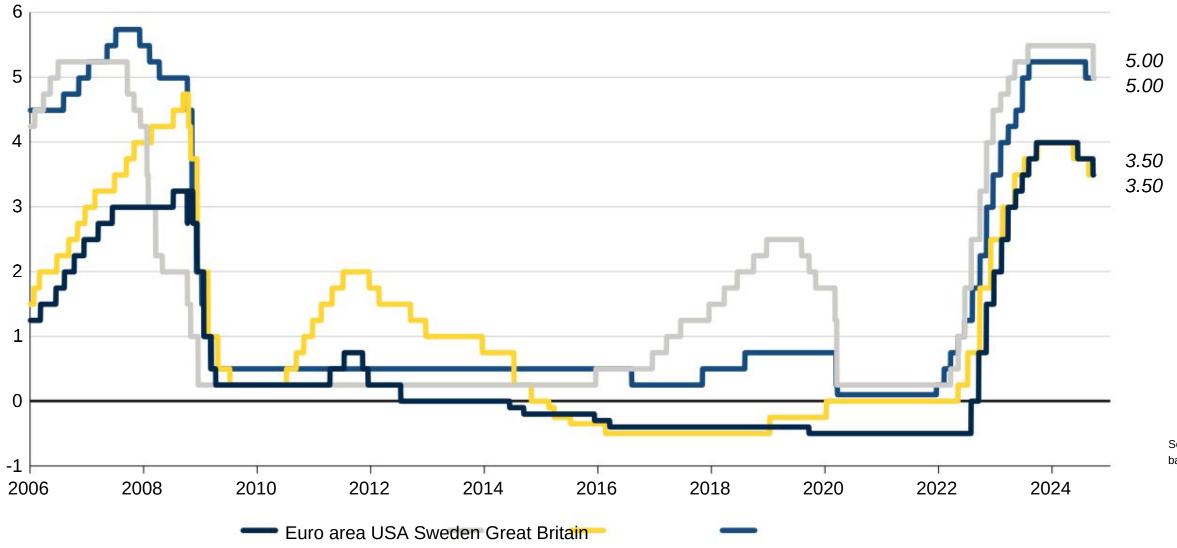
GDP growth, annual percentage change, constant prices

REGION	2023	2024p	2025p	2026p	Average 2015–2019	Share of global GDP, 2023 (%)
Globally	**2.7**	**2.7**	**2.7**	**2.8**	**3.0**	**100.0**
Globally, PPP	*3.2*	*3.1*	*3.2*	*3.2*	*3.4*	
Asia & Oceania	4.5	3.9	3.9	3.6	4.8	37.3
Europe	0.8	1.3	1.6	1.8	2.1	23.8
of which Sweden	*-0.1*	*0.7*	*2.4*	*3.2*	*2.6*	*0.6*
North America	2.5	2.3	1.7	2.1	2.4	29.0
South America	2.0	2.1	2.8	2.7	0.0	4.5
Africa	3.0	2.8	3.4	3.5	3.3	2.7
The Middle East	0.6	2.0	4.0	4.4	2.4	2.7

Sources: Oxford Economics and Business Sweden

KEY INTEREST RATES HAVE STARTED TO BE REDUCED

Policy rate, percent



Sources: National central banks and Macrobond

applies to international trade and investment. This creates a global situation where the risks weigh against the negative and where companies and decision-makers must be prepared for sudden changes in the economic conditions. The global economy is growing at a moderate pace and GDP growth is expected to reach 2.7 percent for the full year 2024. As central banks lower their key interest rates, growth will slowly pick up in 2025 but still reach 2.7 percent 2025. Only in 2026 will global growth reach 2.8 percent, which is below the average for the period 2015–2019 of 3.0 percent.

REGIONS OUT OF STOCK

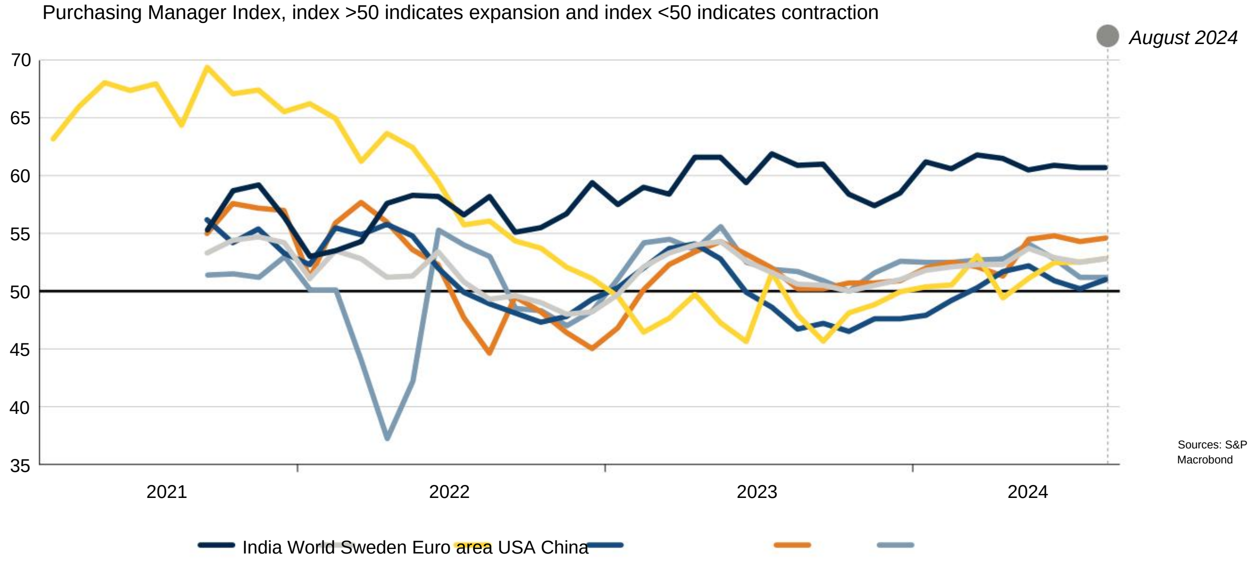
In Asia and Oceania, growth relative to the other regions remains strong with a rate of 3.9 percent in 2024 and 2025, but which then declines to 3.6 percent in 2026, which is a clear decline compared to the high average of 4.8 percent in the period 2015–2019. As a result of its size, the region remains the part of the world that contributes the most to global growth in the coming years.

Europe has recovery in sight, with an increase from 1.3 percent in 2024 to 1.6 percent in 2025 and 1.8 percent in 2026. This is also slightly lower than the region's average for the period before the pandemic of 2.1 percent, reflecting the structural challenges that the European economy is facing, but unlike Asia, the economic upswing will still lead to an increase in the growth rate during the forecast period.

North America has a comparatively strong development ling in 2024, primarily driven by the US, but as a result of a slowdown in the economy in the coming years, growth will end up at 1.7 percent in 2025, and then

COMPANIES LOOK BRIGHTER IN THE FUTURE

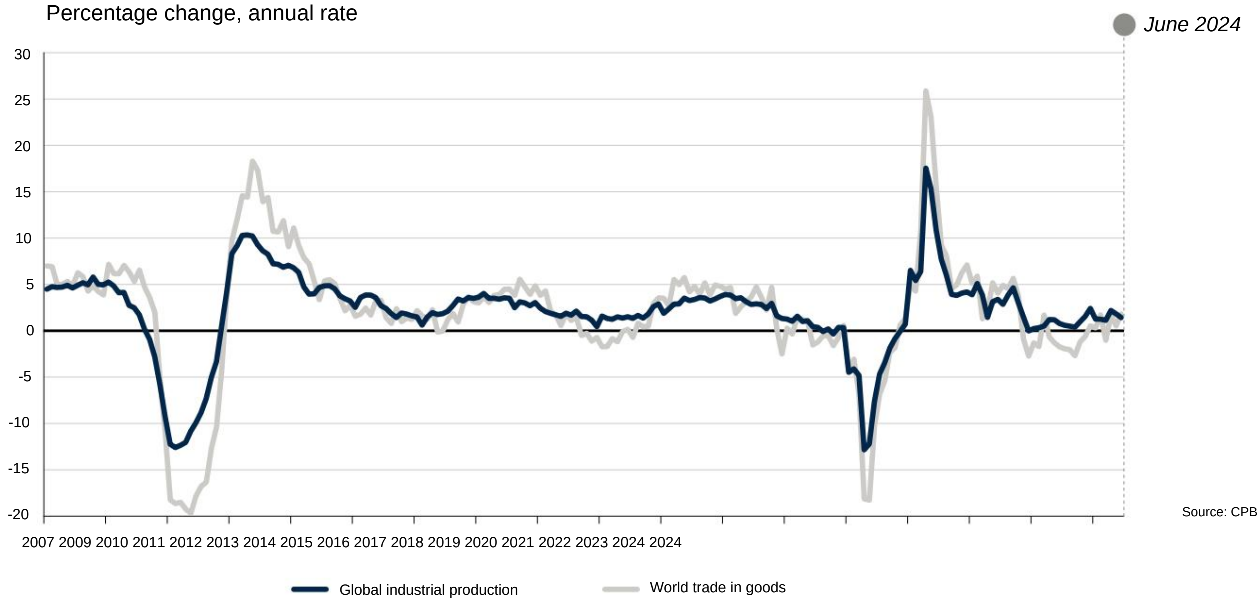
Purchasing Manager Index, index >50 indicates expansion and index <50 indicates contraction



Sources: S&P Global, Swedbank and Macrobond

WORLD TRADE AND INDUSTRIAL PRODUCTION ARE RECOVERING

Percentage change, annual rate



Source: CPB World Trade Monitor

again up to 2.1 percent in 2026. This is also just below the 2015-2019 average of 2.4 percent.

Compared to the other regions, South America's growth forecast is not exactly strong, but it is significantly better than it was before the pandemic when there was zero growth. After a growth of 2.1 percent for 2024, the region is expected to recover to 2.8 percent in 2025, before being at 2.7 percent in 2026.

Africa is expected to have an increasing growth rate during the forecast period, with a forecast of 2.8 percent in 2024, 3.4 percent in 2025 and even slightly higher in 2026 at 3.5 percent. This is slightly above the average of 3.3 percent for 2015–2019. This expected growth can be partly attributed to demographic factors and increased investments in infrastructure and digitization.

The Middle East faces the strongest increase in growth during the forecast period. GDP growth is expected to reach 2.0 percent in 2024 and then accelerate to 4.0 percent in 2025 and 4.4 percent in 2026, which is significantly higher than the average of 2.4 percent for the period 2015–2019. This expected increase in growth is a result of recovery in the energy sector and economic reforms in some of the major oil-producing countries.

WORLD TRADE HAS TURNED UP

In 2024, world trade has started to recover, but it continues to develop weakly. Global industrial production has been held up during the pandemic but is now picking up a bit more speed and is expected to increase by 2.1 percent this year and 3.1 percent in both 2025 and 2026. The upturn in both world trade and global industrial production coincides with the fact that in 2024 it was seen a clear increased demand for freight capacity. Part of the explanation for the resurgence of world trade may be that many companies, especially those dependent on Chinese products, are trying to deal with the uncertainty resulting from the increasing trade conflicts and that there is an ambition to buy in goods before tariffs and other trade barriers come into place. This short-term increase has led to higher shipping costs, which in turn can affect inflation and, by extension, policy rates globally.

Even if global growth has not gained further momentum yet, there are some forward-looking indicators that point to a more positive development of the global economic situation going forward. The Purchasing Managers' Index shows an increasingly hopeful picture of the near term for both the manufacturing industry and the service sector, with manufacturing becoming less negative and the service sector continuing to be at high levels, thus pulling the aggregated Purchasing Managers' Index just above the 50 mark in all more economies, which indicates a normal economic situation.

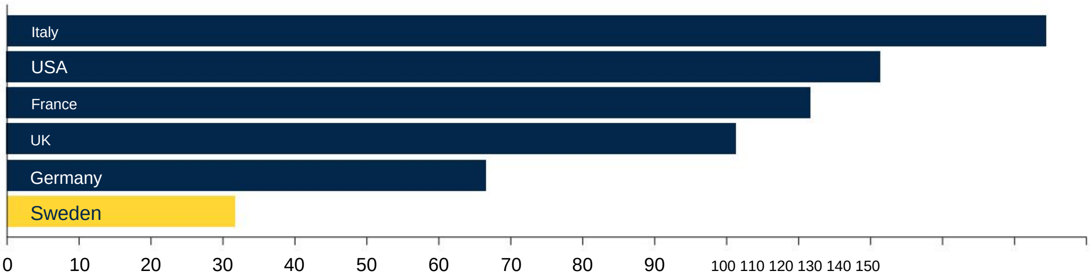
THE EFFECTS OF MONETARY POLICY LATE

Although the fight against inflation can never be completely won, it is notable that many economies have made progress in bringing down inflation. Having said that, certain challenges remain, especially in Europe and the US where service prices have been difficult to moderate and where in the US there has also been concern about the continued large contribution of housing costs to the inflation trend. In addition, unlike Sweden, where wage increases have been kept relatively low, the majority of European economies and the United States have had wage increases that have not decreased at the desired rate, which has made it more difficult for the central banks to combat inflation. This creates a situation where inflation targets are difficult to achieve, and where economic policy has to balance between supporting growth and avoiding inflation picking up again, which limits central banks' room for action.

An important factor in how quickly different economies will recover is the impact of monetary policy on the real economy, which varies

HIGH PUBLIC DEBT IN MANY LARGE ECONOMIES

Public debt as a share of GDP, percent, 2022



Source: IMF

between different economies. The so-called transmission mechanism, which describes how changes in the central banks' key interest rates affect the real economy, works differently depending on factors such as the average term of the loans and the structure of the financial markets.
The full effect of a change in interest rates can come with a delay of 12-24 months.

The Swedish transmission mechanism is judged to be relatively short. This means that changes in the key interest rate quickly have an effect on households' and companies' borrowing costs, which in the event of a reduction can stimulate consumption and investment relatively quickly. This is in contrast to economies such as the US, where loans often have longer maturities. For example, the most common form of housing financing is a mortgage with 30-year maturities. In such economies, interest rate cuts may take longer to take effect, delaying the effects on growth. A further complicating factor is that it is not obvious what level key interest rates should be at to stimulate or tighten the economy. The level at which the economy is in balance is usually called the neutral interest rate. As it takes time for adjustments to the interest rate to have a full impact on the real economy, it is also very difficult to know when the key interest rate has passed this neutral interest rate level. Central banks will thus proceed cautiously with their interest rate cuts in order to give themselves the opportunity to reach the inflation target and stable growth in a more controlled manner.
The rate at which policy rates can be lowered depends on the conditions of individual economies.

FINANCIAL POLICY INCREASINGLY IMPORTANT

Alongside monetary policy, fiscal policy also plays a decisive role in the economic recovery. Economies with low public debt have greater opportunities to use fiscal policy measures to invest in growth-promoting measures and support consumption if needed in addition to monetary policy. A balance must also be made as to whether fiscal policy's inflation-driving investments are well-timed and do not hinder central banks' ambition to curb inflation.
Above all, economies that have reached their inflation target are those that can use fiscal policy to the full.
It should also be mentioned that many fiscal policy initiatives, in particular the investments and structural initiatives that contribute to increased long-term growth, do not have the same inflationary effect as they raise the long-term potential of the economy rather than current consumption.

In several large economies, the situation is challenging. For a long time, southern European economies have struggled with a high level of debt, which meant a protracted struggle to reduce debt, but the pandemic and its aftermath have meant that even economies such as the USA and Germany have found themselves in an increasingly difficult situation where public debt has reached high levels . Higher public debts limit the ability of these economies to conduct expansionary fiscal policies, which means that they must balance between stimulating growth and avoiding further increases in indebtedness. In addition, these economies, like many others, face difficult parliamentary situations where it has been difficult to get the necessary reforms and decisions through. This creates further uncertainty about how quickly these economies will be able to recover.

On the global stage, the USA plays the most central role, and the upcoming presidential election in November creates great uncertainty about the country's future economic policy. This applies to both domestic issues, such as taxes and subsidies, and international trade relations.
Regardless of who wins the presidential election, it is clear that the US's role in world trade and its relationship with China will affect the development of the global economy.

NEUTRAL INTEREST

The neutral interest rate is the level at which the central bank's interest rate neither stimulates nor slows down the economy.
If the policy rate is higher than the neutral rate, monetary policy is tight; if it is lower, expansive. The level of the neutral interest rate is not constant and it can be affected by factors such as long-term economic growth, demographics, savings in the economy and international investment.
The Economic Institute has recently made the assessment that both the Swedish and the euro area's long-term neutral interest rate, when the economies are assumed to be in balance, is 2.5 percent. The American one is slightly higher, 2.75 percent, which testifies to a perception that the USA will have a slightly higher long-term economic growth.

SHANGHAI, CHINA

SWEDISH ECONOMY AND EXPORTS

Interest rate cuts lift households

Investments are gaining momentum

Exports are increasing slowly

RECOVERY IN SIGHT

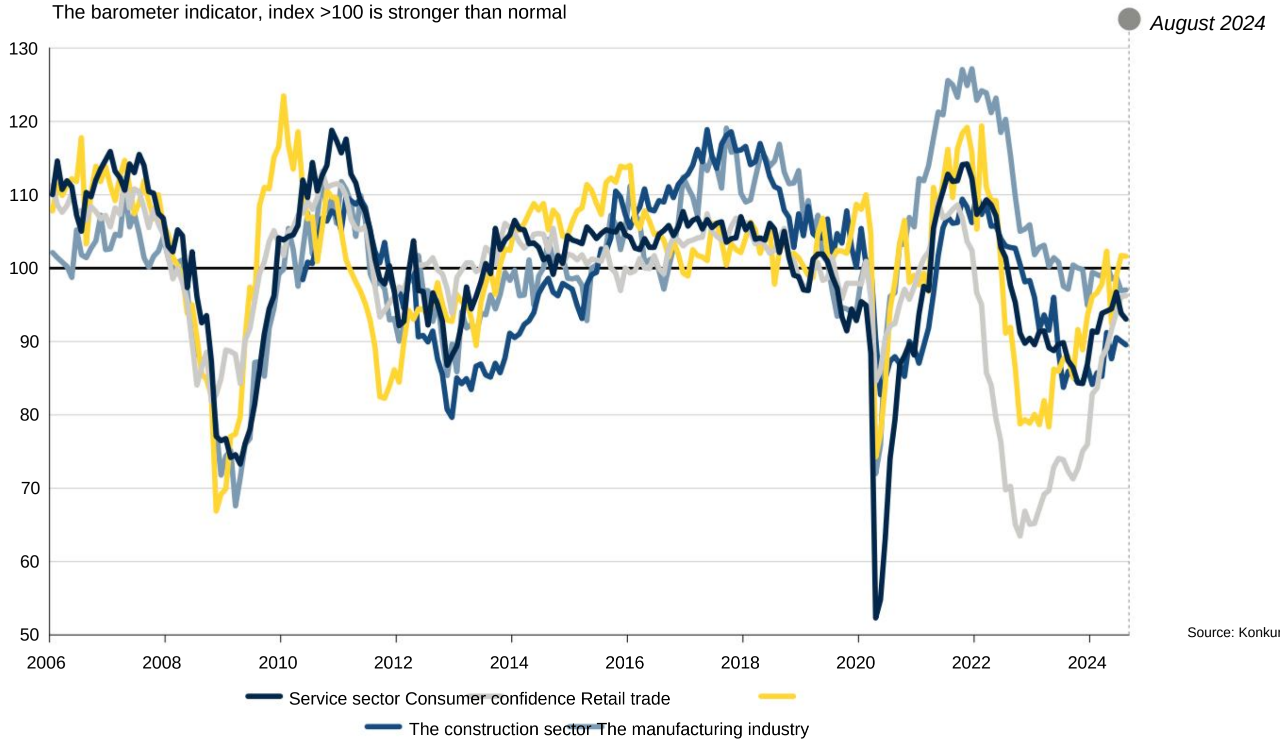
The Swedish economy is overall well equipped for the expected economic turnaround in Europe above all. A less tight monetary policy, in combination with strong public finances and fiscal policy opportunities as well as a stable labor market with disciplined parties, provides the conditions for a rapid recovery. Although global growth does not pick up significantly over the forecast period, domestic demand is poised to take over as a driver of growth. Exports, which have always been an important part of the Swedish economy, will regain their importance when growth in important export markets, such as Germany, Norway and Finland, recovers in the latter part of 2025 and beyond.

From this perspective, Sweden's future looks relatively bright, with expected strong domestic demand and good conditions for growth in both the short and long term. The overall picture is that the Swedish economy during the end of 2024 will have increasing economic activity, largely driven by interest rate cuts that lead to increased domestic consumption. This results in GDP growth for 2024 of 0.7 percent.

With the help of expansive fiscal policy, continued interest rate cuts, monetary policy and real wage increases, consumption will continue to increase in 2025 and 2026. Together with increasing investments and public consumption, GDP growth is expected to end up at 2.4 percent in 2025 and 3.2 percent in 2026.

RISING OPTIMISM IN RETAIL

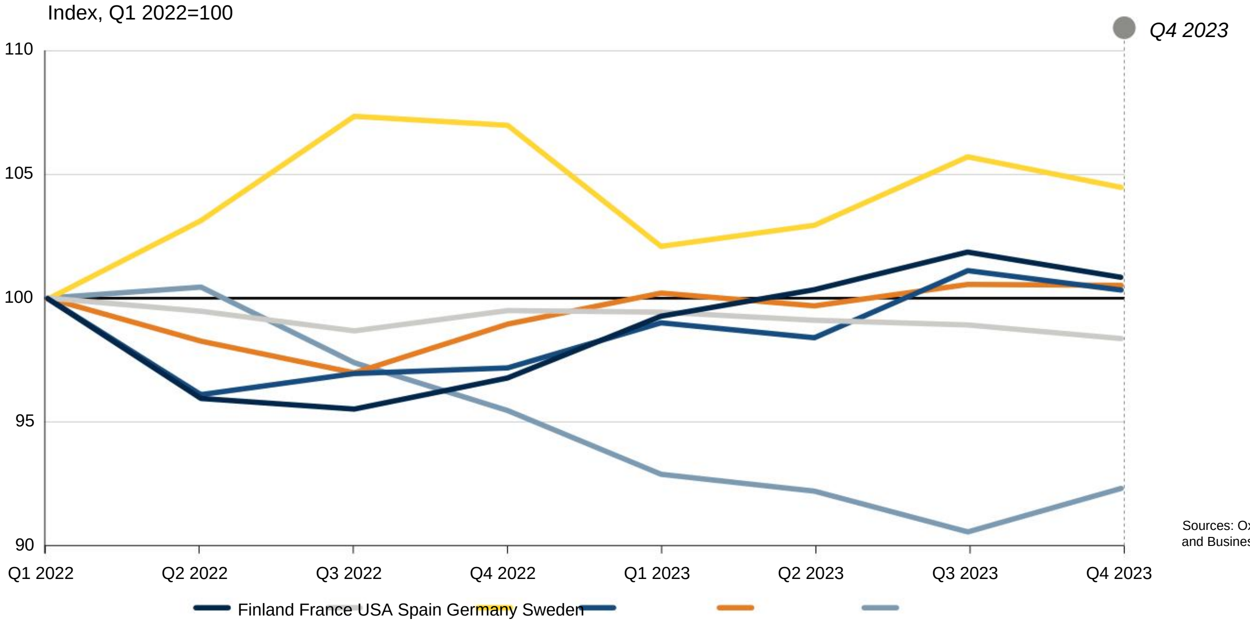
The barometer indicator, index >100 is stronger than normal



Source: Konkunkturinstitutet

THE DEVELOPMENT OF RELATIVE UNIT LABOR COSTS IN SWEDEN AND SOME OF THE MOST IMPORTANT COMPETITOR COUNTRIES

Index, Q1 2022=100



Sources: Oxford Economics and Business Sweden

THE ROAD TO RECOVERY

Having reached the point where inflation according to CPIF, which measures consumer prices where the interest rate effect is excluded, has reached the Riksbank's inflation target and where expectations for future inflation are below the target, the Swedish economy is now facing a turnaround in the second half of 2024 In addition, the Swedish economy is relatively well equipped to get out of the period of low growth. Three factors form the basis for this expected recovery: fast-acting monetary policy, fiscal space and a well-functioning labor market.

Sweden's monetary policy, which is controlled by the Riks-bank and the inflation target, has a strong influence on the economy. The Swedish economy differs from other economies in that it has a relatively short transmission mechanism, i.e. the mechanism that explains how a change in the key interest rate affects the real economy, and the effect that a lower interest rate will have on consumption and the investments will be relatively large in Sweden. This is due, among other things, to a high loan-to-value ratio among households, and to the fact that loans in Sweden are often short-term, where the share of mortgages with a maturity of 3 months is close to 70 percent. This means that changes in the key interest rate affect the real economy faster than in many other countries. When the Riksbank raised interest rates to fight inflation in 2022 and 2023, it quickly had a dampening effect on growth, through the negative effect it had on both household consumption and the limitations it entailed on the credit market. But when inflation is now back at the target, policy rates can be lowered again, which is expected to provide a quick and powerful stimulus to the economy in the form of increased consumption and investment.

Sweden also has strong fiscal policies muscles. The public debt is low (just over 30 percent of GDP), and given the economic situation, there is room for structural reforms and the opportunity to stimulate the economy. A clearly negative GDP gap, where actual growth is judged to be well below the potential growth, also means that fiscal policy can the plant1,

mule the economy without risking overheating or driving up inflation. This creates a unique opportunity for the Swedish government to contribute to a broader recovery without risking a more difficult fight against inflation. The Swedish fiscal policy framework gives the government room to act, even if there are limits to how far these incentives can be stretched without risking increased indebtedness in the long term.

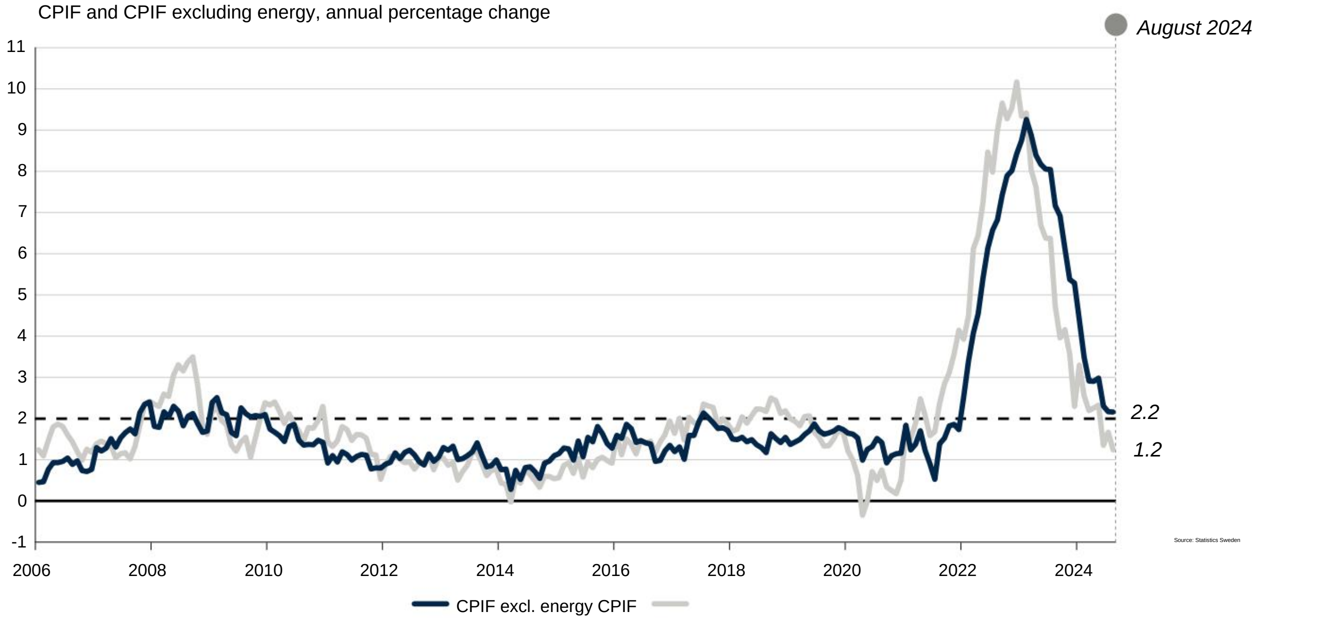
Another important factor is the stability of the Swedish labor market. In the wake of the pandemic and the rapidly rising inflation, employees and employers have avoided a so-called price-wage spiral through restrained wage growth. This has contributed to containing inflation, while at the same time it has strengthened Sweden's competitiveness. The restrained wage development, in combination with a weakened krona, has significantly lowered Swedish unit labor costs relative to other economies. In addition, the high employment rate of 69 percent also means that when real wages start to rise again, it will provide a relatively large stimulus to consumption that few other economies can muster.

The Economic Institute's economic barometer, which aims to map the view of the Swedish economy, indicates a less pessimistic view among households in particular. The retail sector's view of the situation has also strengthened in recent months and is now above its average level. Neither the service sector nor the manufacturing industry has

1 Potential GDP is the highest level of output a country can achieve without driving up inflation. Potential GDP increases over time through improvements in technology, productivity and labor force growth.

INFLATION AT THE TARGET

CPIF and CPIF excluding energy, annual percentage change



managed to demonstrate a clear rise in the Konjunkturin institute's survey. The industry facing the biggest challenges is the construction industry, which is greatly affected by reduced demand for housing as a result of the high interest rate situation and an unexpectedly weak population growth going forward. In 2024, the lower housing construction will have a clear negative effect on the total investments as a share of GDP. Total investments are expected to decrease by 1.6 percent this year. Only next year, with lower interest rates and resumed housing production, can an improvement in the industry be expected. When housing production recovers in 2025 and interest rates fall back, total investment in the economy picks up a bit more and is expected to increase by 2.6 percent in 2025 and 4.1 percent in 2026.

RESILIENT LABOR MARKET AND GROWING CONSUMPTION

Although unemployment is increasing, this has so far not led to dramatic changes in employment. Unemployment is expected to increase until the end of 2024 and be at a relatively high level, but lower than during previous economic downturns, such as during the pandemic and the financial crisis. That the demand for labor is decreasing can also be seen in other data, including the vacancy statistics, where the number of vacant jobs has decreased, and the Employment Service's statistics on notices, which have increased. That the labor market has a weak demand can also be seen in the recruitment statistics of the labor force surveys where the proportion of newly recruited

THE CROWN HAS BEEN STRENGTHENED DURING THE AUTUMN

Number of SEK per respective currency

of all employed persons has been at very low levels in 2024. In addition, the number of hours worked has not recovered to the same extent as the number of employed persons after the pandemic. This also indicates a reduced demand for labour. The fact that the unemployment rate has been kept down and the employment rate up despite a low demand situation in Sweden, and the world at large, testifies to increased caution among companies. Many employers have tended to retain labor despite low demand (so-called *labor hoarding),* in the hope that the economy will soon turn around and then avoid the costly recruitment processes made difficult by high shortage numbers.

The fact that the Riksbank has started its interest rate-cutting cycle and that households' real incomes are increasing again is expected to have a rapid effect on consumption and contribute to increasing consumption in the future. Consumer confidence has turned up and is approaching a normal state. The retail trade has strengthened and, according to the Economic Institute's barometer indicator, shows that optimism is returning. For the full year 2024, consumption is expected to increase by a moderate 0.4 percent and then increase significantly by 2.8 percent in 2025 and 3.1 percent in 2026.

STRONGER CROWN DURING THE AUTUMN

Even if the inflation trend is moving in the right direction, there are risks and complicating factors that can have an impact on its development and the Riksbank's monetary policy. A significant, albeit diminishing, such risk is the development of the Swedish krona. The krone has strengthened by about 6 percent against the US dollar and about 4 percent against the euro since the end of July. This strengthening is expected to continue.

For a small open economy like Sweden, the impact of exchange rate changes on the economy through imports and exports is of great importance. In addition it is a fact that during times of high global economic uncertainty investors tend to move capital to larger and safer markets. This affects the currency market and causes smaller currencies, such as the Swedish krona, to often lose value against larger currencies.

On the one hand, a weakened currency can make a country's exporting companies more competitive as their goods and services become cheaper for buyers in stronger currency areas, which can increase exports. On the other hand, imported goods and services become more expensive, which increases commodity prices and can increase production costs for companies that depend on inputs from abroad. These increased costs can force the companies to raise the prices of their products and the companies thus import inflation, which affects the monetary policy's ability to stimulate the economy. Overall, however, the competitive advantages should prevail. In Business Sweden's report geopolitiken, for example, it appears that just over half of the industrial The crown, the prices and companies see a weaker krona as something that improves the conditions for winning export business.

Although a weaker krona, and thereby higher inflation, is still a risk that can create problems for Swedish monetary policy, the current level of inflation, the high probability that most central banks will lower their policy rates in the future and the strong growth potential of the Swedish economy are something that can significantly mitigate this risk.

SWEDISH EXPORT DEVELOPING WEAKLY THIS YEAR

Swedish exports are highly dependent on the development of the global economy, and above all the development in Europe is of great importance as 73 percent of Swedish exports go there. As a result of the relatively

SWEDISH EXPORT

Percentage change, annual rate

	2024p	2025p	2026p	Average 2015–2019
Total Exports	**1.9**	**2.4**	**3.5**	**4.5**
Export of goods	0.1	1.8	3.5	4.4
Service export	6.0	3.6	3.3	5.0

FORECAST FOR SWEDEN'S TOTAL GOODS EXPORT GROWTH

Percentage change, annual rate

Region	2024p	2025p	2026p	Share of Swedish exports, 2023 (%)
Globally	**0.1**	**1.8**	**3.5**	**100**
Europe	-0.8	1.6	3.6	72.8
Asia & Oceania	3.4	3.6	3.5	11.5
North America	1.6	1.2	3.5	11.0
South America	1.0	1.6	3.0	1.4
Africa	3.7	1.3	1.1	1.6
The Middle East	3.6	3.7	3.8	1.8

Sources: Oxford Economics and Business Sweden

moderate growth in Europe, Swedish exports are only expected to increase by 1.9 percent in 2024, which is significantly lower than the historical average for the period 2015–2019 of 4.5 percent. In line with this, Business Sweden's Export Managers Index (EMI) for the third quarter showed a marked decline in the view of export development from a relatively high level earlier in the year. The combined index for both the current situation and the forward-looking perspective is now close to normal, where the companies overall do not see that export growth will either increase or decrease in the near term. This decline was broad across almost all sub-indices, including profitability and backlogs – only expected export sales held up and gave some hope of lightening in the long term.

A glimmer of light in the export statistics has been service exports, which have grown rapidly in recent years. Although the growth rate in service exports is said to be higher than in goods exports this year and next year, it is difficult to see that service exports can maintain the same growth rate over time. Merchandise exports have been more cyclically dependent and, as a result of continued moderate global growth this year, it is hardly expected to increase. Instead, goods exports only pick up when European consumption has recovered to a greater degree. Together with increased domestic demand, increasing exports will contribute to strengthening the growth of the Swedish economy in 2025 and 2026.

North America is the region that Swedish export companies are most positive about, according to Business Sweden's Export Manager Index for the third quarter. But as a result of the fact that the American economy is expected to have lower growth and subdued imports in 2025, Swedish exports there are also expected to decline next year. When the USA once again experiences somewhat stronger growth in 2026, Swedish exports are expected to pick up again there. Merchandise exports to North America are expected to increase by 1.6 percent in 2024 and 1.2 percent in 2025 and 3.5 percent in 2026.

The biggest effect on Swedish exports, and the economy in general, is Europe, where 73 percent of exports go. Europe, with its weak economic development, not least in Germany, will have the greatest dampening effect on Swedish exports in 2024. The Export Manager's Index for expected demand from Western Europe fell back slightly in the third quarter to lie just above the 50 mark, which indicates that companies continued has a cautiously optimistic outlook. When the slow-starting European economy picks up in 2025 and 2026, this will be a big help for the Swedish export industry.

Asia and Oceania, comparable in size to North America as an importer of Swedish goods, is expected to contribute positively to Sweden's exports above all due to the region's relatively high growth rates for the forecast period 2024–2026. Although the region's largest economy, China, is losing momentum in its growth, there are still high growth figures. In addition, many investments are being made in several Asian economies, which is expected to have a positive effect on Swedish goods exports to the region as early as 2024, and we will see export growth of up to 3.3 percent this year. It is important to take into account that Sweden's trade relationship with Asia is undergoing transformation, where previously established trade routes are being evaluated as China manages its faltering economy and where other economies and markets are given the opportunity to complement the formerly dominant Chinese role in the region .

All in all, Swedish goods exports are expected to reach almost zero growth in 2024. In 2025, the European recovery is expected to increase and since Swedish exports are mostly exported to Europe, this means an increased demand for Swedish goods and growth of Swedish goods exports on 1.8 percent. When growth, and in particular domestic consumption, subsequently takes off properly in the European economies in 2026, it means that Swedish exports of goods will increase further and land at 3.5 percent.

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EUROPE

Recovery in sight | **Standstill in Germany** | **Interest rate cuts have begun**

TRIALS AWAITING

The internal political discord exists in parallel with the fact that Europe needs to come together for major challenges. In the area of security policy, Russia during the spring and summer gained a clear advantage in its war of aggression against Ukraine, this at the same time as the support of the outside world for the country's defense is beginning to fail.

In the economic field, competition from China is becoming increasingly apparent, while the Chinese market has cooled in its demand for European export goods. The EU's trade deficit with China amounted to close to 300 billion euros in 2023, the second highest ever, and a balancing of the trade exchange is not in sight. Chinese companies dominate the market for products critical to climate change, such as wind turbines and solar panels. Chinese electric vehicles (EVs), especially passenger cars, are making rapid inroads into the European market at the same time that the European automotive companies are lagging behind in the electrification as well as the development of software.

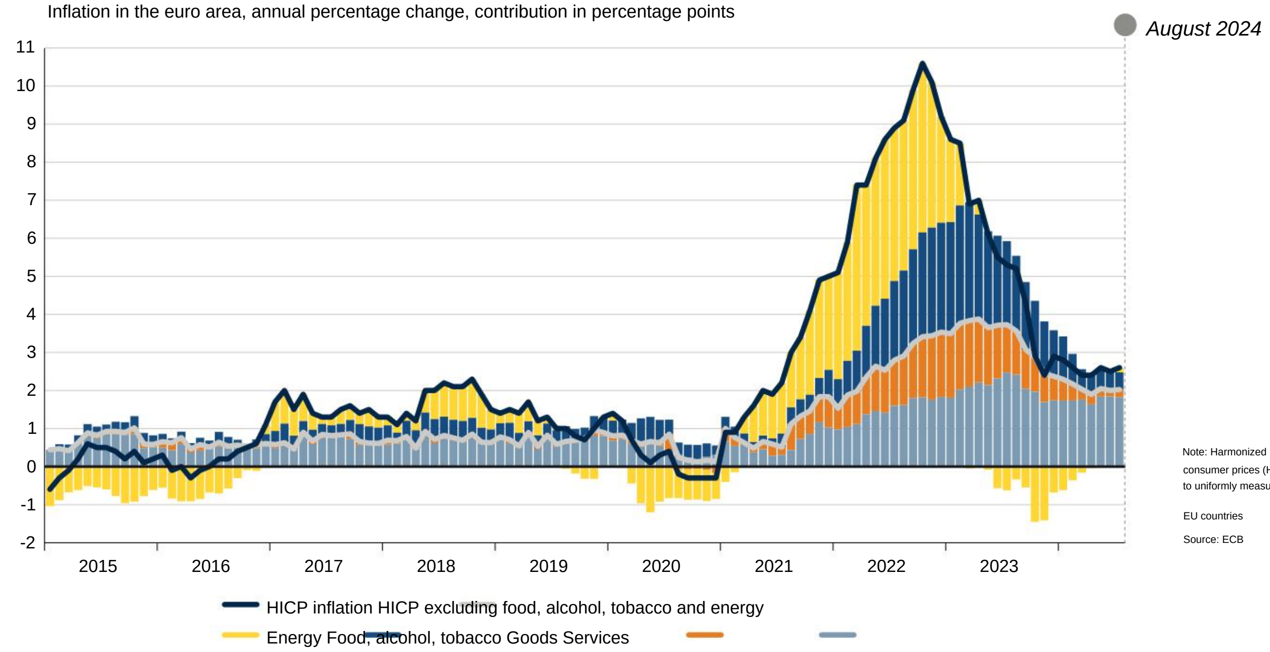
With 14 million jobs directly or indirectly linked to Europe's automotive industry, including subcontractors, companies' difficulties in coping with competition from China could lead to negative social and economic consequences in vehicle-producing countries such as Germany, France, the Czech Republic, Slovakia and Spain. It is against this background that the Commission has decided to introduce temporary tariffs of 20-40 percent for imports of Chinese electric vehicles from the beginning of July, while negotiations continue with individual Chinese vehicle manufacturers.

Also the relationship with the EU's largest trading partner America is tense, even if the differences are few with the current Biden administration.

The outcome of the presidential election in November is an uncertainty factor for European goods exports to the United States, which amounted to 500 billion euros in 2023, as former president and Republican candidate Donald Trump has plans to

INFLATION CLOSE TO THE TARGET

Inflation in the euro area, annual percentage change, contribution in percentage points



Note: Harmonized index for consumer prices (HICP) is developed to uniformly measure inflation in all EU countries

Source: ECB

to impose a 10 percent duty on most imported goods. The USA's relatively good economic development and the dominance of American tech companies is also politically painful for a Europe that has stagnated in many respects since the corona crisis, and where faith in the future is weak.

The energy crisis, which was triggered by Russia's mili-tainted attack on Ukraine, has subsided thanks to an unexpectedly quick switch to liquefied natural gas imports, the restart of French nuclear reactors and two mild winters. However, the gas price has stabilized at a level twice as high as before, which weighs on European industry. Inflation has fallen back and in June the European Central Bank (ECB) implemented the first interest rate cut in five years, by 25 points to 3.75 percent. The ECB cut the policy rate by another 25 basis points to 3.50 percent at its September meeting.

The European labor market has weakened in recent months, but unemployment was unchanged in July at a relatively low 6.0 percent in the EU as a whole. Households' real incomes have started to increase again in line with inflation has fallen back, but so far without making an impact in significantly rising consumption. European consumers are still gloomy about the economic situation, probably with the increase in the price level in recent years as a strong contributing factor. Instead, there has been an increase in household savings. For the service sector, it has record-breaking tourism during the summer played a positive economic role, especially for the more tourist-dependent countries in southern Europe.

Standard & Poor's (S&P) purchasing managers' index for the euro area gives a fragmented picture of the economy. The index for the manufacturing industry landed at an unchanged 45.8 in August, indicating continued low activity. However, the services sector continued its upward trend and rose to 52.9 in August, from 51.9 in July. Preliminary figures for the September survey show, however, that the situation is worsening for industry while the service sector is falling back again.

At the beginning of September, former Italian Prime Minister and head of the ECB Mario Draghi presented a long-requested report on the EU's competitiveness *(The future of European competitiveness) on behalf of the Commission.* The report assesses that the EU needs to mobilize 750–800 billion euros per year in order to keep pace with the US and China and to meet the Union's ambitions in the digital and green transition, as well as in the area of defence.

GDP growth in Europe is expected to reach 1.3 percent this year, to then rise slightly to 1.6 percent in 2025, supported by a moderate rise in private consumption and investment and a rebound in exports. The forecast for 2026 is a continued expansion of the economy of 1.8 percent, under gradually weakly rising global demand.

POLITICAL TURBULENCE It has been an eventful six months in European politics. The elections to the EU Parliament at the beginning of June resulted in major successes for the extreme right, above all in France and Germany. The fact that Marine le Pen's right-wing party Rassemblement National (National Assembly) became the largest party with a third of the vote prompted French President Emanuel Macron to immediately dissolve the National Assembly and call new elections. After the second round of voting at the beginning of July, it was clear that Macron's Renaissance party had fallen sharply, but through electoral technical cooperation with left- and right-wing parties had succeeded in preventing a victory for le Pen. No bloc can muster a majority in the National Assembly, which means a difficult path forward for Macron and his political program. In early September, he appointed veteran Brexit negotiator Michel Barnier as the new prime minister, in an attempt to form a government accepted by parliament.

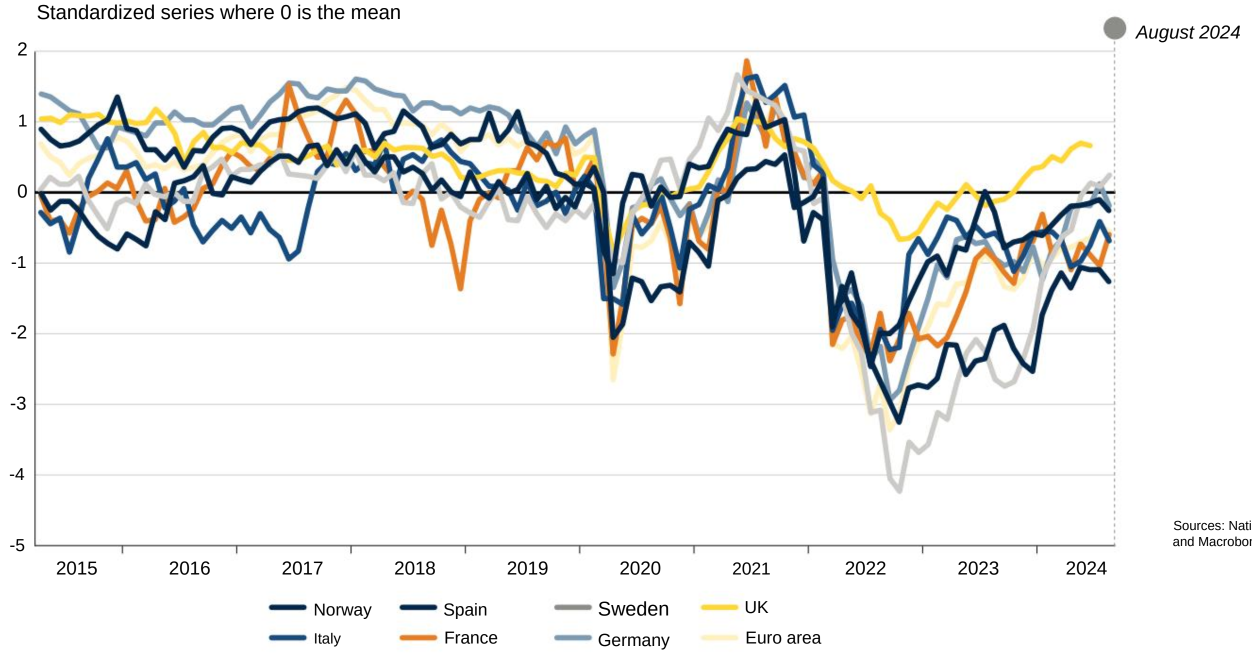
In mid-July, the President of the European Commission, the Christian Democrat Ursula von der Leyen, was re-elected by the European Parliament for a new five-year term 2024-2029. In a next step, a new commission will be formed, with selected candidates from the member states. The President, together with the European Council, will appoint the new Commissioners and their areas of responsibility during November 2024.

In the parliamentary elections in Great Britain at the beginning of July, the ruling, conservative Tory party led by Prime Minister Rishi Sunak made a historically poor result and lost government power after 14 years. The new prime minister, Labor leader Keir Starmer, with a new-found massive majority in parliament, has promised swift changes to deal with widespread discontent with a failing public sector and the development of the British economy. The outcome of the election has also sparked debate about a change to the system of majority voting in single-member constituencies, against the backdrop of the election result being named the least proportional in UK history. The leading Labor and Tories parties together received only 60 percent of the vote.

Dissatisfaction with political and economic developments is also widespread in Germany, and especially in eastern Germany, where the far-right Alternative for Germany (AfD) advanced strongly in the state elections in September in Thuringia and became the largest party, and Saxony, where the AfD came close behind the Christian Democratic CDU. Support for the coalition government, led by Social Democratic Chancellor Olaf Scholz, remains weak, with growing opposition to the government's climate policy, which mandates a halt to new gas and oil power plants, and security policy, particularly aid to Ukraine, as well as in demands for a more restrictive migration policy. The German government's budget proposal for the autumn includes a halving of aid to Ukraine.

CONSUMER CONFIDENCE LOW BUT STRENGTHENING

Standardized series where 0 is the mean



Sources: National sources and Macrobond

LACK OF DRIVING POWER

Germany. Pessimism about the German economy in business and among households is widespread and weakened again during the summer. The now more than two-year-long stagnation with zero growth that began in the spring of 2022 continues this year.

The extremely difficult situation for German industry during the acute phase of the energy crisis has eased when energy prices fell back from sky-high levels. But the gas price in Europe has stabilized at a level that is twice as high as before, which continues to weigh on the industry. The loss of competitiveness for the energy-intensive industry persists and the important automotive industry is faltering under the pressure of Chinese competition in the electric car market in particular. Declining global demand, not least from Germany's fourth largest export market China, is reflected in the gloomy outlook for industrial production and exports, which are expected to increase only marginally this year. In September, the automaker Volkswagen announced that the company may be forced to close several factories in Germany for the first time ever.

There are still bright spots in the German economy. Rising wages and rapidly falling inflation lift households' real incomes, after the loss during the corona pandemic and the energy crisis, and private consumption turns up during the year, albeit by a modest 0.6 percent. The labor market remains robust, even if it has started to show signs of weakness. The unemployment rate was unchanged at 6.0 percent in July, the highest level in three years. A survey-based indicator developed by the European Commission signals that the German business community has extensive overemployment of personnel, so-called *labor hoarding,* who in a short time risk being made redundant in a worse economic situation.

S&P's purchasing managers' index for the manufacturing industry fell back during the summer and landed at a low 42.4 in the August survey, which is a significantly lower reading than in the other major European economies. The index for the service sector also fell back to a reading of 51.2 in August. The well-reputed Ifo index clearly points to the fact that Germany's economy is in a slump, with low ratings for the companies' view of both the current situation and the next six months.

The German economy is thus expected to show zero growth this year, in the absence of traction from households and external demand. During the autumn, a fragile recovery begins, which results in growth of a still weak 0.7 percent in 2025. The economy is expected to gradually pick up speed and grow by 1.4 percent in 2026, mainly as a result of a smaller boost for private consumption and investment. The important export will develop at a moderate pace in the next few years, in parallel with a slightly rising global demand.

France. The French economy developed stronger than expected in the first half of this year, and especially during the summer. In the short term, the successful implementation of the Olympic Games in Paris means a boost to growth, as well as the fact that tourism recorded another record year, with a forecast of over 100 million foreign visitors. Households benefit from rapidly falling inflation combined with modest wage increases. The unemployment rate fell to 7.3 percent in July, which is historically a low figure, in a still robust labor market.

However, private consumption develops weakly as well 0.6 percent this year, and investments are falling back, partly as a result of the political unrest in the run-up to and the outcome of the parliamentary elections.

An increase in consumption is expected, but will likely take until a trend towards further interest rate cuts is established.

Different measurements give different signals about the state of the French economy. The statistics agency Insee's well-reputed index for the business climate bounced up in August to a level just below the historical average, among other things as a result of increased order intake for export sales. Consumer confidence also increased somewhat, but is still at a low level. In contrast, S&P's manufacturing PMI fell back to 43.9 in the August reading, signaling continued economic weakness, while the service sector index surged to 55.0, a sharp increase from July's reading of 50.1.

France's GDP growth for 2024 is expected to amount to to 1.2 percent, mainly supported by public consumption and net exports. In the next year, the growth rate is expected to fall back slightly to 1.0 percent and then climb to 1.5 percent in 2026, in a broad but moderate recovery in the economy.

UK. The British economy is performing above expectations and GDP is expected to increase by 1.1 percent this year, after last year's zero growth. The recovery is driven by a smaller uptick in private consumption and a lift in public consumption, which compensates for stagnant investment and a fall in exports. A slowly rising PMI, with a reading for manufacturing at 52.5 and for services at 53.7 in August, confirms the picture of an economy with some momentum.

The labor market continues to develop strongly with unemployment falling to a low 4.1 percent in July. Households' real incomes are increasing thanks to falling inflation and rising wages. A dissident board of directors at the Bank of England decided on a first interest rate cut by 25 basis points to 5.00 percent at the August meeting, with signals of further interest rate cuts to come.

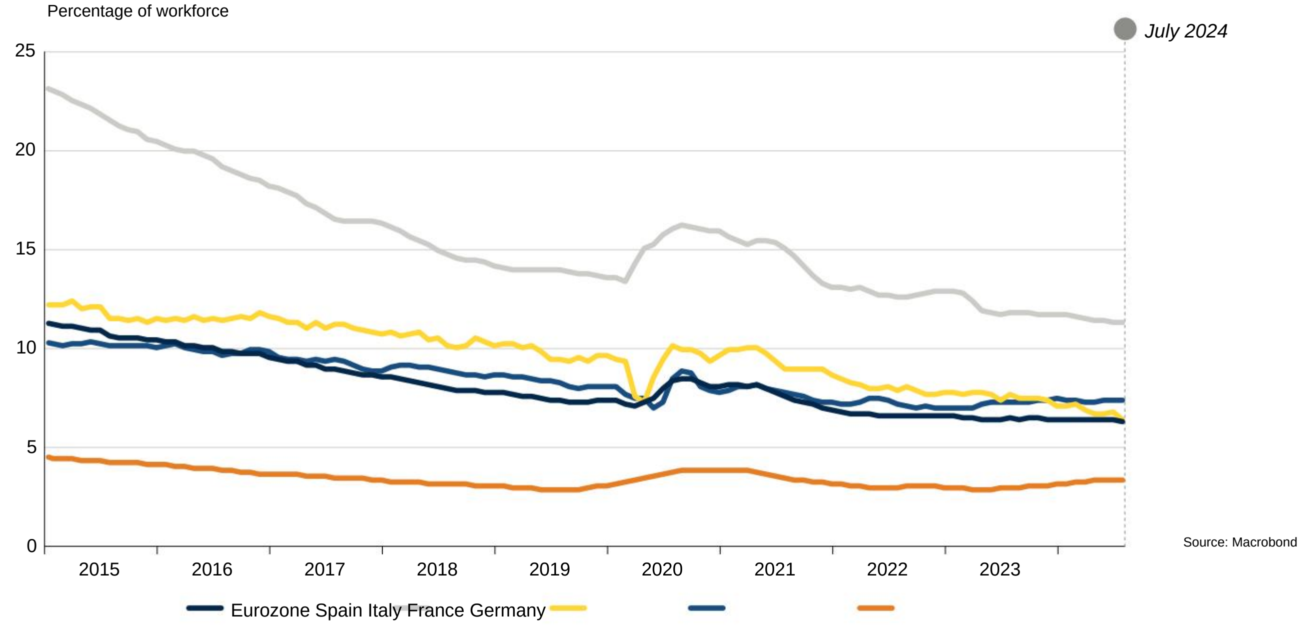
The new Labor government has announced a growth-friendly policy with investments in infrastructure and housing construction, the shortcomings of which are pointed out as an important reason for the weak productivity development in the British economy since the financial crisis. The government also plans to implement certain tax increases to strengthen an underfunded public sector and enable increased mobility on the labor market. The recovery in the UK

economy is expected to continue in 2025 and 2026 with GDP growth of 1.7 and 1.8 percent respectively, in a clear boost to both private consumption and investment.

Italy. The forecast for the Italian economy in 2024 is an expansion of a moderate 0.8 percent, with private consumption stagnating and investment picking up. Exports are also stagnating, despite an important contribution from service exports, which lift off a new record summer for tourism. In recent years, Italy has established itself as the world's sixth exporting nation of goods after Japan, and pushed France down to seventh place.

Households benefit from good wage growth and rapidly falling inflation, which, with an expected annual average of 1 percent, falls short of the ECB's inflation target of 2 percent by a margin. The labor market remains strong and unemployment has successively fallen to 6.5 percent in July, which is the lowest level since the financial crisis of 2008/2009. S&P's purchasing managers' index for the manufacturing industry increased to 49.4 in August after another slump during the summer. The index for the services sector went in the opposite direction, with a reading of 51.4 after a gradual decline in the last six months. It indicates cautious optimism about the market situation.

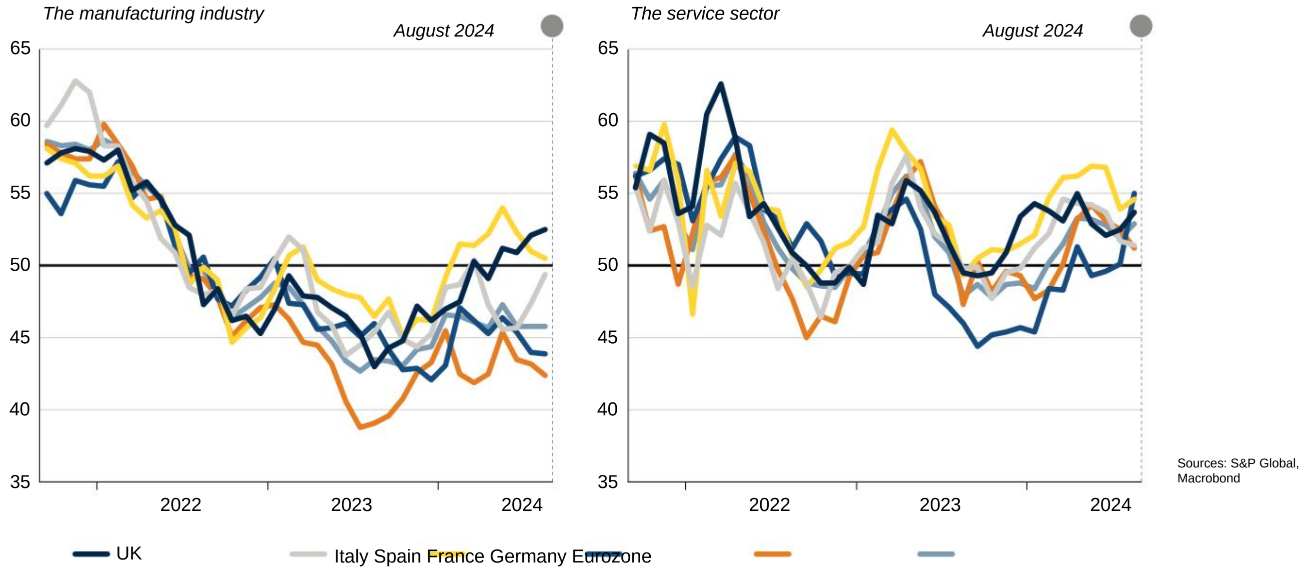
NO CLEAR WEAKNESS OF THE LABOR MARKET
Percentage of workforce



Source: Macrobond

WEAK IN INDUSTRY, SERVICE SECTOR STILL STRONG

Purchasing manager index in the manufacturing industry and the service sector, index >50 indicates expansion and index <50 indicates contraction



A challenge for Prime Minister Meloni's right-wing government is to use Italy's allocation of 192 billion euros in funds and loans from the Union's recovery fund within Next Generation EU until 2026 in a productive and for the EU Commission acceptable way. According to public statistics, 50 billion euros had been used at the turn of the year.

The GDP forecast for 2025 lands at a growth of 1.0 percent, mainly driven by a moderate rise in private consumption. Demand in the economy continues to increase in 2026, but as a result of the declining rate of investment and stagnant public consumption, growth remains at 0.9 percent.

Spain. The Spanish economy continues to be one of the few fast-growing in Europe, thanks in large part to a strong service sector. As for other European countries in the Mediterranean region, tourism reached record levels in the number of foreign visitors during the spring and summer.

The growth rate during the first half of this year surprised positively and was driven by a robust development for private consumption, investments and exports. Households' real incomes are recovering despite a lingering inflation rate of just under 3 percent in annual average, which is above the average for the euro area, and the labor market continues to generate jobs. Unemployment fell to 11.3 percent in the second quarter, the lowest for Spain since the financial crisis but still one of the highest levels in Europe.

S&P's purchasing managers' index shows that even Spain characterized by the division into two in the European economy. The index for the manufacturing industry fell to 50.5 in the August survey, while the index for the service sector instead increased to a solid 54.6.

An expected sharp increase in investment will take place next year through the use of a significant part of Spain's €140 billion in funds and loans from the Union's recovery fund Next Generation EU. The forecast for the Spanish economy is positive with an expected expansion of a high 2.8 percent this year, after which the growth rate will slow to 2.0 percent in 2025 and 1.6 percent in 2026, in a broad but mild decline.

GROWTH LIFT IN EASTERN EUROPE

Russia. Despite enormous costs for the war of aggression against Ukraine, economic sanctions imposed by more than 30 countries and a massive exodus of foreign companies, the Russian economy is expected to grow by 3.9 percent this year. The growth is driven by a large increase in private consumption and a high rate of investment, the majority of which can be assumed to go to military purposes and a transition to national self-sufficiency. Inflation is predicted to rise to an annual average of just under 8 percent.

The state treasury has benefited from an oil price (Ural) that has fluctuated around 65-80 dollars per barrel in the past year. The West's economic sanctions have not had the intended effect as Russia was able to import important inputs through friendly transit markets in the immediate area.

There are currently many indications of a long-term war that is currently going Russia's way. The development is moving towards full-scale government control of the Russian business life, an escalation of investments in the industry to replace non-existent imports with national production, as well as expanded mobilization of the population for the battles in Ukraine. Military expenditure as a share of GDP is expected to amount to 7 percent this year, or just under a third of the state budget.

Russia's GDP is expected to rise by 1.7 percent next year, mainly driven by public consumption and investment. For 2026, the growth rate is expected to slow to 0.5 percent. However, the conditions for analyzing developments in the Russian war economy are limited.

Turkey. The economy is expected to grow by 2.7 percent this year, thanks to an increase in public consumption and net exports replacing stagnant private consumption. Forecasts for tourism show a record year in 2024 with an expected contribution to GDP of just over 12 percent, the same level as for Spain.

An extensive credit expansion has contributed to sustaining demand in the economy, but more and more signals now testify to an ongoing slowdown. Retail sales fell back during the summer. Households need to manage inflation that is expected to land at just under 60 percent on average for the year, while the central bank kept the policy rate unchanged at 50.00 percent at the August meeting. As recently as May 2023, the policy rate was 8.50 percent.

The labor market continues to develop strongly, but also masks significant underemployment. The unemployment rate fell back to 8.8 percent in July, after a rebound the previous month that broke a downward trend.

An expected decline in private consumption dampens GDP growth to 1.9 percent next year, after which a positive development of net exports contributes to a lift of 2.2 percent in 2026. Investments develop weakly during the forecast period. But the outlook for Turkey's pronounced inflationary economy is uncertain.

Central and Eastern Europe. The forecast for *Poland* is GDP growth of 3.3 percent this year, supported by robust private and public consumption. The real incomes of Polish households are increasing as a result of a continued strong labor market, rising wages and an inflation rate that is expected to fall to just under 4 percent on average annually, from just over 11 percent last year. But the dependence on the faltering German market shows itself in a weak development for industrial production and stagnant exports. Continued high pressure in domestic demand together with an investment peak generated by EU funds is expected to result in growth of a whopping 3.6 percent next year and 3.5 percent in 2026.

Hungary is back on the growth track with an expected economic expansion this year of 1.5 percent, followed by 3.3 percent in 2025 and a whopping 3.9 percent in 2026, this as a result of high private and public consumption and a galloping rate of investment. As in Poland, this year's outcome is dampened by the failing European market, and Germany in particular, through significant declines in industrial production and exports. The tensions between Prime Minister Orbán's government and the EU have escalated during the year, when Orbán used Hungary's six-month presidency for controversial visits and talks in Moscow and Beijing. The payments of significant amounts of EU aid are frozen as a mark against Hungary's violation of basic democratic principles, including through the increased political control of the legal system.

The Czech Republic has also taken off from a zero-growth last year, with a forecast for GDP growth of 1.0 percent this year. A strong development for private consumption and investments pushes growth up to 2.9 percent next year and 3.5 percent in 2026.

DENMARK A WINNER

The Nordic countries. In *Sweden,* the economy is strengthened during the year, driven by interest rate cuts that lead to increased domestic consumption. This results in GDP growth for 2024 of 0.7 percent. With the support of an expansive fiscal policy, continued stimulating monetary policy and real wage increases, consumption will continue to increase during the forecast period. Together with increasing investments and public consumption, growth in GDP is expected to end up at 2.4 percent in 2025 and 3.2 percent in 2026, see the section *Swedish economy and exports.*

The forecast for *Finland* is a loss of -0.2 percent this year, mainly as a result of large falls in investment and exports. Private consumption stagnates, while the labor market weakens. Unemployment fell back to 7.9 percent in July after peaking at 10.2 percent in May. With falling inflation, interest rate cuts and stronger global demand, a recovery begins in the autumn, resulting in growth of 2.0 percent in 2025 and 1.9 percent in 2026.

Despite weak pressure in private consumption and a fall in investments, GDP growth in *Denmark* is expected to land at 1.6 percent this year, with a large contribution from net exports. The Danish pharmaceutical company Novo Nordisk, whose diabetes medicine has proven to be effective in the treatment of obesity and other diseases, has in a short time become Europe's most valued company. The company contributes to a lift of just over 10 percent for industrial production this year, but also masks an otherwise weak development for Danish industry. The Danish economy is predicted to accelerate in 2025 and 2026 with growth figures of 1.9 and 2.9 percent, respectively. The rise is driven by private consumption and investment, while the rate of increase in exports is normalising.

In *Norway,* the economy is expected to grow by 1.8 percent this year, mainly as a result of high public consumption and strong export figures, while investments fall. Norway's central bank kept the policy rate unchanged at 4.50 percent at the August meeting and stressed that the bank's inflation target has not yet been reached, with inflation at 2.6 percent in the same month, which is why interest rate cuts may be delayed until next year. The country's important offshore industry is nevertheless developing strongly and is benefiting from Europe's reorientation of gas purchases from Russia to new suppliers. The forecast is for declining activity in the economy over the next year, with GDP growth of 0.5 percent, followed by a lift to a robust 1.9 percent in 2026.

COPENHAGEN, DENMARK

ASIA

Downshifting in China

Robust growth in Southeast Asia

India is going strong

SLOW SLOWDOWN IN THE REGION

In recent months, the financial markets in Asia have experienced increased volatility, which evokes memories of previous financial crises. Regardless of whether we look back at the Asian financial crisis of 1997 or the global financial crisis of 2008, it is clear that changes in major economies such as the US and China often affect the economic stability of the region. The latest episode of unrest began in August, when unexpected interest rate hikes in Japan and signs of a slowdown in the US economy led to increased volatility in currency markets in Asia.

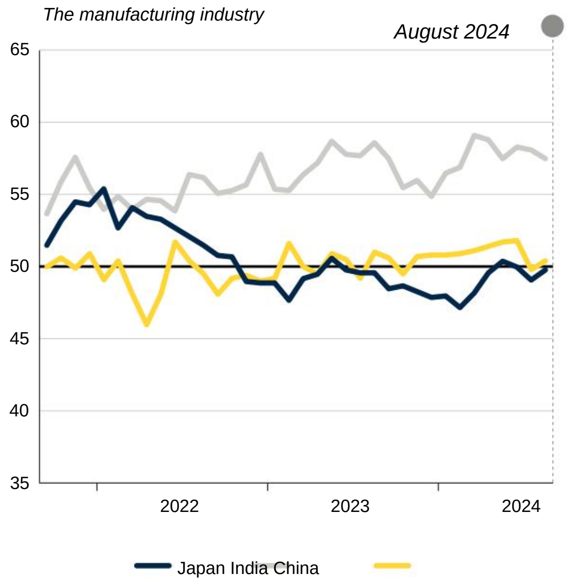
Economic uncertainty has not yet fully subsided, and many markets expect volatile conditions to continue in the coming autumn. The main impact on Asia will probably be seen through reduced exports and consequent effects on the domestic economies, as well as some pressure on currencies and interest rates.

In Asia, a slowdown is visible during the forecast period, where growth primarily slows down in the region's largest economy, China. For the other, smaller economies, however, the picture is mixed. Economies dependent on the Chinese market and industry will lose some growth during the forecast period, while others may benefit from the gaps that arise in the region.

The rapid growth of the technology sector, where demand for semiconductors has been fueled by the global AI boom, has particularly benefited economies such as South Korea and Taiwan, but the question is whether that boom can last. Malaysia's economic rise, particularly driven by investment in machinery and semiconductors, also reflects global demand for technology, and the country's economy is expected to grow by 4.4 percent this year, 4.0 percent in 2025 and 5.6 percent in 2026. Also if this technological expansion is a bright spot, it is still uncertain how long it can last and what spillover effects it will have.

OPTIMISM IN ASIA'S BUSINESS LIFE

Purchasing manager index in the manufacturing industry and the service sector, index >50 indicates expansion and index <50 indicates contraction



Source: S&P Global

In Indonesia and the Philippines, it is rather robust private consumption that plays a decisive role in domestic growth. In addition, Indonesia receives traction from relatively high private investments and the Philippines public investments, but the question is whether these investments can be sustained in a continued high interest rate environment. Indonesia is expected to grow by 5.1 percent in 2024, 4.9 percent in 2025 and 5.1 percent in 2026. The Philippines is slightly stronger at 5.7 percent in 2024, 5.9 percent in 2025 and 6.0 percent in 2026.

Vietnam stands out as a strategic hub for foreign direct investment, especially from companies seeking to avoid US tariffs on Chinese goods. The continued influx of foreign investments, mainly in the manufacturing sector, strengthens the country's export capacity and growth prospects. With the increased global interest in supply chain diversification and AI technology, Vietnam can consolidate its role in the region, especially in high value-added sectors such as electronics.

This trend could have broad effects on global trade flows, especially if China continues to face challenges in global trade. Vietnam is expected to grow by 5.9 percent in 2024, 6.2 percent in 2025 and 6.3 percent in 2026.

At the same time, several challenges remain for the region. Household indebtedness is increasing and the uncertain development of global growth is affecting investments. The export figures are particularly dependent on developments in China and the USA, where both economies are now expected to slow in the coming year. In addition, there is a lack of strong fiscal support, as interest rates have risen and many governments need to tighten their budgets.

In summary, Asia is characterized by an uncertain economic situation, where part of the region benefits from the ongoing IT boom, while other parts struggle with structural challenges and weak global demand. How this situation develops will depend on global economic fluctuations and the region's ability to manage its domestic economic challenges.

China. China is in a situation where the long-term structural challenges – demography, productivity and indebtedness – outweigh the short-term, cyclical effects of economic stimulus. In the second quarter of 2024, GDP growth slowed to 4.7 percent compared to 5.3 percent in the first quarter.

Exports were one of the few parts of the economy that showed continued strength in the second quarter, mainly due to China's price advantage. However, the question is how long this growth can continue, especially when the US, regardless of who wins the presidential election, advocates tariffs on Chinese goods. Although China has to some extent found ways around these tariffs by exporting via third countries, the moderate global economic growth and doubts about the sustainability of the current technological boom, especially in AI, are likely to limit exports growth in the longer term.

The long-term challenge for China is trade about diminishing returns on investments, which drives the need for a transition from an investment-driven to a consumption-driven growth model. But this transition has not yet been successful.

Household consumption as a share of GDP is currently around 37 percent, which is significantly lower than the global average of around 55 percent. In fact, the consumption share has fallen slightly compared to the level before covid-19, which shows the difficulties China has in stimulating domestic demand and reducing its dependence on investment from abroad.

At the Third Plenum held in China in the summer of 2024, President Xi Jinping underlined his focus on building on the reforms initiated in 1978. These reforms opened China's economy to market forces and world trade through, among other things, the privatization of state-owned enterprises, opening to foreign investment, establishment of commercial banks and free trade reforms. Despite this, many analysts expected the meeting to offer more comprehensive measures to stimulate weak domestic demand, particularly in the property sector. Instead of focusing on the real estate crisis, which has been one of the biggest factors behind the economic downturn, Xi directed his speech to promote investment in advanced manufacturing and technological development, something called "new qualitative production power ".

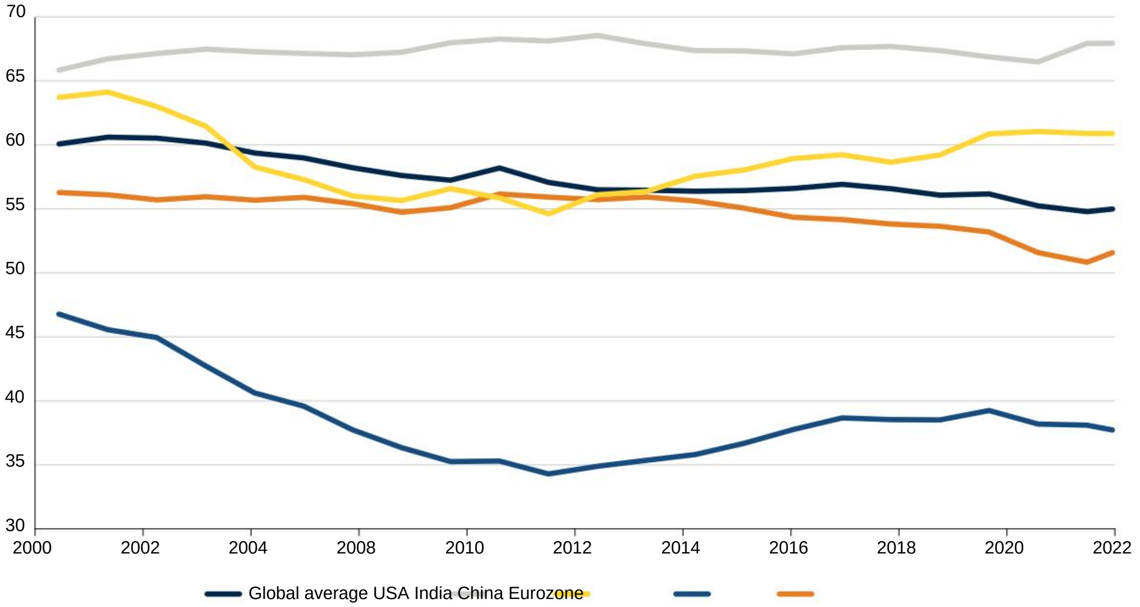
Despite hopes for a clearer orientation towards consumption-driven growth, which several economists consider necessary for China's future, the plenum was mainly about technology, self-sufficiency and innovation. Technological development was mentioned over 160 times, while the hard-pressed real estate sector received only four mentions. Measures to address the financial imbalances between the central government and the indebted local authorities were discussed, as well as proposals to improve the Chinese welfare system.

Despite these initiatives, the document was overall general, and it was not clear how these reforms are to be implemented, which has led to continued concerns about China's ability to achieve sustainable growth in the long term as it shows that the Chinese government continues to see technology and innovation as the most important tools for future growth, rather than a comprehensive reform of domestic consumption.

This technology-centered growth model is part of China's larger geopolitical strategy, where the country strives to reduce its dependence on the United States while increasing its own global competitiveness in key industries such as electric vehicles, batteries and solar energy. The government subsidies to these sectors have made China a dominant player on the world market. Although this has contributed to a record trade surplus, the question remains as to how sustainable this strategy is in the longer term. At the same time, the increased investment in the export of technological equipment means

LOW CONSUMPTION IN CHINA

Household consumption as a share of GDP, percent



Sources: World Bank and Macrobond.

that the tensions with the outside world may intensify further, especially with the USA and Europe which have already introduced trade tariffs against Chinese products in green technologies.

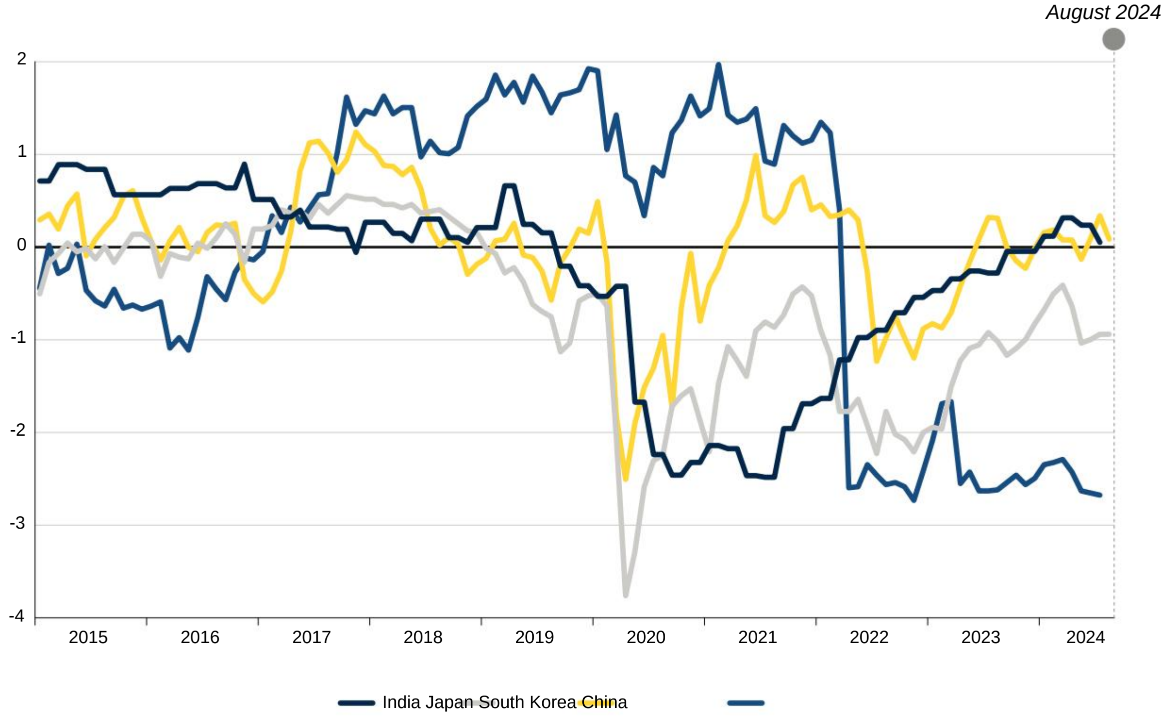
In summary, China faces both short-term economic challenges with declining export growth and long-term structural challenges for a transition to a more sustainable growth model. The Chinese economy will grow by 4.9 percent in 2024 (which is in line with China's growth target of around 5 percent) before slowing down to 4.5 percent in 2025 and 4.0 percent in 2026.

STRONG GROWTH IN INDIA

India. The Indian economy has shown strong growth in recent years, and the country's future economic outlook remains positive, although some challenges remain such as the dependence on energy imports and the challenges of implementing national initiatives in the country's vastly different regions. With the new coalition government taking office recently, India has continued to demonstrate its commitment to fiscal restraint, which was also evident in the latest budget presented in July. The budget prioritizes investments

GLAMOROUS CONSUMERS

Standardized series where 0 is the mean



Source: Macrobond

in infrastructure, which strengthens the country's economic prospects in the long term. Private consumption slowed at the start of the year, driven in part by agriculture hit by heat waves and a bumpy start to the monsoon season that saw output lower than expected. This led to a desire for support for households and consumption, but these did not materialize.

One of the risks associated with India has long been its sensitivity to inflation, as rising food and energy prices quickly ripple through the economy. Thus, it was initially gratifying that inflation during the summer fell to the lowest level in five years. But the dramatic decline in inflation was largely driven by so-called base effects, which means that inflation looks lower compared to a high level last year.

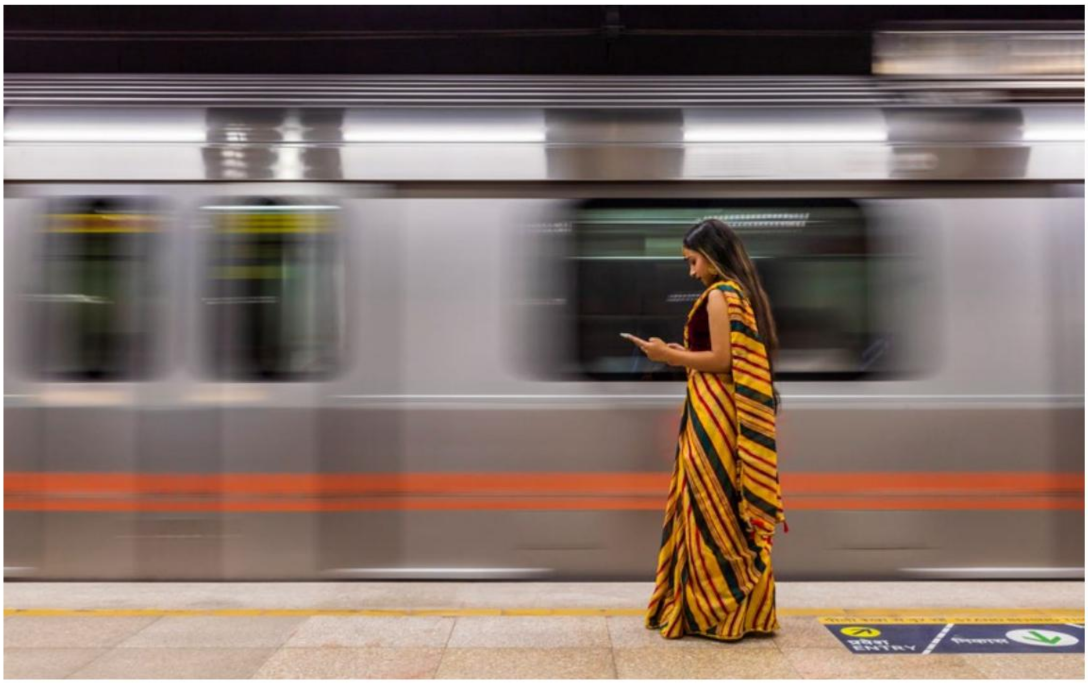
Instead, it was noted that the pressure on food prices continues to affect households' purchasing power. This was probably one of the arguments why the central bank of India chose to keep the policy rate unchanged with a continued tightening monetary policy. The bank's line of holding back liquidity has now been maintained for 18 months, and any signs of a future interest rate adjustment do not appear to be relevant at the moment.

Indian exports have been somewhat weaker than the results from the first quarter of 2024 gave the impression as the growth rate was clearly dampened later in the year. Merchandise exports even fell for two months in a row until July, with industrial goods, among other things, showing signs of subdued demand.

Despite inflationary pressures, surprisingly weak exports and a tight monetary policy, India's economy is expected to show continued robust growth. For 2024, GDP growth of 6.8 percent is expected, while the forecast for 2025 shows a slightly higher growth of 7.0 percent, mainly driven by public investments in infrastructure and a continued strong consumption. In 2026, the speed of the Indian economy, although still very high, is expected to fall back to 6.7 percent. The long-term outlook for the Indian economy is bright, but to maximize its growth potential, India needs to continue to develop its economic structures and strengthen its competitiveness in the global market.

Among the long-term perspectives and structural factors that will shape India's future, infrastructure projects and digitization initiatives stand as central elements. They are expected not only to improve the efficiency and productivity of the domestic economy but also to increase India's competitiveness in the global market. These efforts, together with growth in the service sector, which remains an engine for both domestic consumption and exports, will underpin long-term growth. In addition, India's focus and investments in renewable energy and the transition to a less coal- and oil-consuming economy are expected to strengthen the economy's resilience for the future. Ultimately, India's long-term success relative to China will depend on whether it can capitalize on its huge demographic advantage – its large and young population – which is expected to peak in the mid-2060s at just under 1.7 billion people, while China is expected to have a declining population during the same period.

Japanese. During August 2024, the Bank of Japan's (BoJ) interest rate hike contributed to dramatic market effects worldwide. After the BoJ raised interest rates to 0.25 percent as part of its gradual tightening, Japan's Nikkei 225 index fell 5.8 percent in a single day, the biggest decline in four years. The decline continued and in two days the market had lost over 10 percent, making this one of the largest stock market losses since 1987.



The main reason for the sharp market reaction was the unwinding of the "yen carry trade", where investors borrow money at low Japanese interest rates to invest in high-yielding assets overseas. As the BoJ raised interest rates and the yen strengthened, many investors were forced to sell their assets globally to cover their positions, leading to widespread forced selling.

Given the rapid recoveries in the stock market after the initial decline, these reactions can be considered exaggerated. It was largely technical factors, such as automated sales, that worsened the situation. The long-term recovery of the market suggests that the initial panic did not fully reflect the true state of the Japanese economy.

Inflation has been a continuing issue for the BoJ. Although the CPI index showed an increase this summer, inflationary pressure is expected to ease somewhat in 2024. However, wage increases are believed to contribute to long-term inflationary pressure. The BoJ has continued on its path towards normalizing monetary policy, with another interest rate hike planned for the end of the year. However, the BoJ has assured that future interest rate increases will take place cautiously, which contributes to reducing the uncertainty surrounding the country's economic future.

Exports continue to be a weak point for the Japanese economy. While demand from the US and parts of Asia has remained relatively strong, exports to Europe have proved weak, particularly due to subdued demand within the euro area. This affects the country's trade balance negatively and is one of the main obstacles to stronger growth. Expectations are that this trend will continue for the rest of the year, making the export market a challenge for Japan's economic recovery.

After a negative start to the year, the Japanese economy grew in the second quarter of 2024 by 0.7 percent compared to the previous quarter. The overall view of the Japanese economy is that it will continue to recover in the coming quarters. The total figure for 2024 is expected to land at a moderate 0.1 percent. Growth will pick up more speed in 2025 when GDP is expected to increase by 1.1 percent and then moderate to 0.6 percent in 2026.

South Korea. The South Korean economy is expected to experience a gradual recovery over the next two years, but growth is likely to come to slow down compared to previous years. After a period of robust export growth, mainly driven by semiconductors and other advanced technologies, South Korea faces a more uncertain future in terms of both domestic demand and external demand from its main trading partners.

South Korea is heavily dependent on its electronics industry, and more than 40 percent of its electronics exports go to China and the United States. Despite strong growth in the semiconductor industry due to AI developments, the geopolitical tensions between the US and China could negatively affect this sector. Many major South Korean companies have production in China, increasing their vulnerability to trade restrictions and other tensions between the two superpowers.

On the domestic side, household indebtedness has become a growing concern for the South Korean economy. Household debt is around 94 percent of GDP, one of the highest levels globally, and has continued to rise despite high interest rates.
The government has introduced measures to increase housing supply, particularly in Seoul, in an attempt to slow rising housing prices, but household indebtedness may still limit private consumption. Increased interest payments and a higher debt burden can lead to reduced purchasing power among households, which in turn can negatively affect economic growth.

The South Korean central bank, the Bank of Korea, has so far been cautious about lowering the policy rate, despite expectations of a possible easing of monetary policy. Several members of the central bank's executive board now allegedly see the possibility of an interest rate cut in the fourth quarter of 2024. A contributing factor to this restraint has been the risk that a premature interest rate cut could lead to a further rise in the housing market, which could increase the indebtedness further. The weak consumption, which would be helped by a more expansive monetary policy, speaks against this.

Exports will continue to be a driver of growth, particularly in the semiconductor sector, although the long-term sustainability of this growth is uncertain as there are indications that the semiconductor cycle may have peaked. A continued recovery on the investment side, especially in the technology sector, can contribute to growth. With these factors in mind, the South Korean economy is expected to grow by 2.3 percent in 2024 and slightly slower, 2.1 percent in 2025 and 2.2 percent in 2026.

SEOUL, SOUTH KOREA

NORTH AND SOUTH AMERICA

US against soft landing

Still sluggish in Canada

The Mexican economy is slowing down

TOWARD NORMALITY IN THE AMERICAN ECONOMY

USA. The US economy surprised positively in the first half of this year with continued robust private consumption and a good rate of investment. The labor market continues to deliver new job opportunities, albeit at a slower pace. The unemployment rate fell back to 4.2 percent in August after rising on trend from a historic low of 3.4 percent in March 2023.

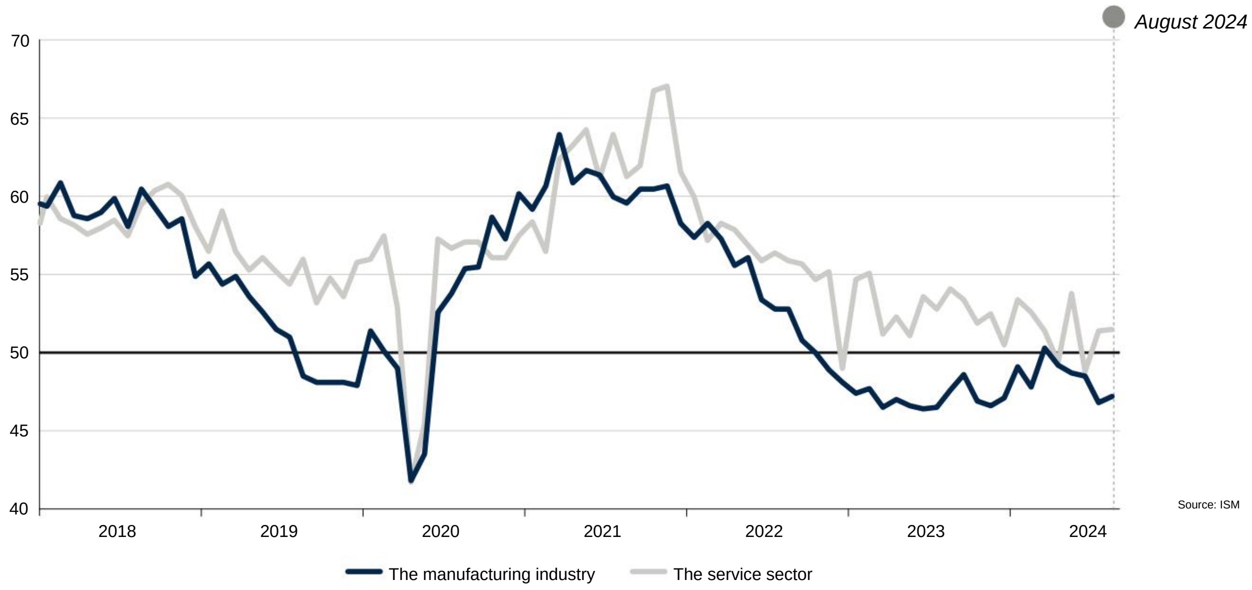
Inflation has fallen back during the year and upwent to 2.5 percent in August, and thus still a bit above the central bank Federal Reserve's (Fed) inflation target of 2 percent. The Fed nevertheless carried out a double reduction of the policy rate by 50 basis points to the range of 4.75-5.00 percent at its September meeting, the first reduction since March 2020.

Measurements give the picture that the economy is generally close to a normal situation, but also that the development is split with continuing difficulties for industry and an expansion in the service sector. The ISM manufacturing PMI, where the normal has been set at 50, climbed back slightly to 47.2 in August after falling gradually over the summer. The index for the services sector increased slightly to 51.5 in the same month. In another measure, the S&P purchasing managers' index, the index for the manufacturing industry fell slightly to 47.9 in August, while the services sector climbed to 55.7.

Other monthly indicators such as OECD's The Business Confidence Index (BCI) shows that business confidence in the development of the American economy has bottomed out and turned up to just below 100, which indicates a normal situation. Consumer confidence is also on the rise, after falling for the past six months: In the Conference Board's latest survey in August, the index rose to 103.3, which is a bit above the normal level of 100. The well-regarded University of Michigan Consumer Sentiment Index shows a similar development.

SERVICE SECTOR MORE OPTIMISTIC THAN MANUFACTURING INDUSTRY

US PMI, index >50 indicates expansion and index <50 indicates contraction



Source: ISM

The forecast for the American economy is a GDP growth of 2.5 percent this year, supported by a somewhat declining but still strong labor market, good growth in private consumption and a rebound in investments. Falling inflation and an expected series of interest rate cuts from the Fed provide conditions for continued good domestic demand next year as well. The economy is thus moving towards a soft landing, which means that the inflation target is reached without the economy ending up in recession. Growth is expected to land at 1.8 percent in 2025, which is the rate of increase that the Congressional Budget Office believes corresponds to the US economy's annual growth potential for the next five-year period. In 2026, the economy is predicted to gain renewed vigor with the help of stronger global demand, resulting in growth of 2.1 percent.

Canada. The noticeable downshift in the economy that began last fall has continued during the first half of this year. The highly leveraged and interest-rate-sensitive Canadian households are under pressure from continued high, albeit falling, interest rates and a progressively weaker labor market. According to the Canada Mortgage and Housing Association, just under half of the home loans in Canada will need to be renewed in 2024 and 2025, many at higher interest rates. However, the economic outlook for households has improved with the Bank of Canada cutting the policy rate by a total of 75 basis points on three occasions in June, July and September, to 4.25 per cent. Further reductions are to be expected in the autumn. Inflation is on the way down and amounted to 2.5 percent in July.

Canada's important oil and gas industry benefits from the May completion of Trans Mountain

THE PRESIDENTIAL ELECTION IN THE USA MAKES AN IMPACT ON THE ECONOMY After six months which has been one of the most eventful in the modern political history of the USA, the presidential election in November is between Vice President Kamala Harris and former President Donald Trump. At the time of writing, the polls are deadlocked between the candidates and the outcome of the election is likely to be decided in seven so-called wave master states 1 (1. Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania and Wisconsin) which are winnable for both the Democrats and the republicans.

While the parties' election campaigns are largely devoted to questioning the suitability of the opposing party's candidate for the presidency, Harris and Trump have been sparing with details about economic policy. In the absence of other information, the economic alternatives can be assumed to be between Bidenomics and MAGAnomics, which simply means a choice between more or less presence of the state and the public sector in the economy.

As Biden's vice president, Harris has been involved in the administration's high-profile initiatives and legislation successfully piloted through Congress, including a federal aid package (the American Rescue Plan), an infrastructure investment (the Infrastructure Investment and Jobs Act), the new climate package Inflation Reduction Act (IRA), and a national investment in semiconductor development and manufacturing, The CHIPS and Science Act. The new industrial policy has collected some successes, such as Taiwanese TSMC's major investment in advanced semiconductor manufacturing in Arizona and South Korean Samsung's corresponding investment in Texas.

The recent years' high inflation and rising living costs have strongly contributed to the Bidens low popularity figures among the American electorate, as well as the weak confidence in the president's economic policy. Even if the economy from a macroeconomic perspective is developing well, as Biden's vice president, Harris has an uphill battle here among the voters.

In statements from Harris's campaign, it appears that she supports a large part of Biden's policies, including the IRA. But Harris wants to go further than Biden in supporting low- and middle-income earners by cutting taxes for families with children, lowering child care costs, lowering drug prices, punishing food companies that drive up food prices, introducing subsidies for first-time home buyers and stimulating the construction of more affordable housing with the goal of three million new homes in four years. The reforms are to be partially financed through increased taxes for the super-rich and corporations. Harris plans to raise the corporate tax rate from the current 21 percent to 28 percent, as well as the capital gains tax from 20 to 28 percent. Newly started small businesses will instead receive tax breaks.

During his time as president, Trump has worked for reduced taxes for both individuals and companies, deregulations mainly in the energy and financial sectors, dismantling former President Obama's health care reform (failed), a restrictive immigration policy and higher tariffs on imports from abroad, especially on goods from China.

In statements from Trump, it appears that in a future administration he will extend the tax cut- the ones that his administration carried out in the major tax reform The Tax Cut and Jobs Act 2017. Then, among other things, the corporate tax was lowered from 35 to 21 percent. Now Trump is proposing a further reduction to 15 percent. He wants the part of the income tax cuts that automatically expires in 2025 to be made permanent. Trump also wants to impose a 10 percent tariff on most imports and a 60 percent tariff on Chinese goods, close the IRA and deport undocumented immigrants.

In terms of economic policy, Harris and Trump have only been able to agree on abolishing the tax on tips. None of the candidates has announced how they intend to deal with the US's recurring large budget deficit and rising national debt, which amounts to just over 120 percent of GDP.

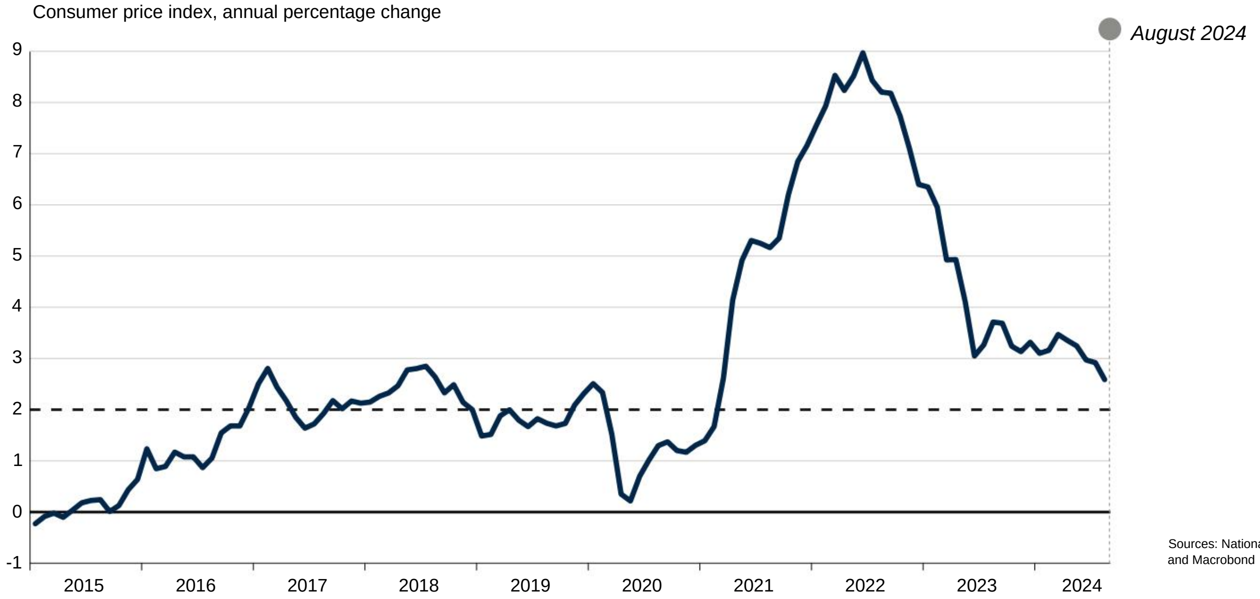
Pipeline, a controversial project for environmental reasons that will increase the country's export capacity of fossil fuels and enable a diversification of exports to customers other than the American market, mainly countries in Asia such as China and India. As a whole, Canadian industrial production is stagnating. S&P's manufacturing PMI rose slightly to 49.5 in the August reading, just below the normal level which is set at 50. The service sector index also climbed a small notch to 47.8 but still signals a gloomy view of the market.

GDP growth is forecast to land at a modest 0.9 per cents this year. The economy is expected to emerge from the mild one the recession in a gradual increase in private consumption and investment during the forecast period. A slow recovery in the economy takes place in 2025 with growth of 1.1 percent, after which growth accelerates to 2.2 percent in 2026, when the inflation target has been achieved, the interest rate has normalized, while external demand is strengthening.

Mexico. June's presidential election ended with a historic landslide victory for left-wing Morena candidate Claudia Scheinbaum, who will become Mexico's first female president when she succeeds outgoing president Andrés Manuel López Obrador, known as AMLO, in September. Scheinbaum is expected

INFLATION HAS TURNED DOWN IN THE USA

Consumer price index, annual percentage change



Sources: National sources and Macrobond

broadly continue AMLO's policy with investments in social programs for low-income earners and a modernization of the country's infrastructure.

Statistics for the first half of this year indicate a slowdown in the economy, after last year's GDP lift of 3.2 percent. Inflation is on the way down, but households are under pressure from food price increases, high interest rates and tight credit. The labor market remains strong with unemployment reaching a low 2.9 percent in July. The S&P manufacturing PMI fell to 48.5 in August, the lowest reading in two years.

Central bank Banxico surprised the market by following up the first cut in the policy rate in May with a further cut of 25 basis points in August, to 10.75 percent. In its communication, Banxico has emphasized the importance of combating an ongoing wage and price spiral.

But inflation is on the way down and amounted to 5.0 percent in August.

The economy is expected to grow by 1.1 percent this year, supported by moderate increases in the private sector consumption and investment, after which growth increases to 1.7 percent in 2025 and 2.3 percent in 2026, with very strong figures for exports as demand from the outside world, primarily the important US market, picks up.

SOUTH AMERICA

Brazil. GDP in Brazil is expected to grow by 3.0 percent this year, supported by robust increases in private consumption and investment. The labor market is tight with unemployment falling to 6.8 percent in July. However, the S&P manufacturing PMI fell sharply to 50.4 in August, from 54.0 in July, while the service sector index recorded a smaller drop to 54.2.

Inflation is expected to average 4.3 percent this year and shows no sign of falling back significantly, which is why Brazil's central bank is expected to keep the policy rate unchanged at 10.50 percent into next year. The growth rate in the economy is expected to fall back to 2.1 percent in 2025 and 1.8 percent in 2026.

VOLATILE COMMODITY PRICES PRESSURES SOUTH AMERICA Still high, albeit decreasing, inflation and high interest rates are putting pressure on South American households, with poverty and social tensions as a result, in the wake of uncertainty among the population about the availability of energy and food at reasonable prices. The labor market has overall strengthened after the pandemic, but unemployment in several South American countries has been permanently close to 10 percent in motley national labor markets with many low-wage jobs and the underemployed. Government support and grants to low-income families have not been able to prevent a third of the population from being classified as poor. Low productivity and limited access to capital dampen the growth prospects for the continent's economies. In addition to Brazil, Chile, Colombia and Peru are part of a smaller circle of countries with good economic development. On the opposite side, Argentina is the worst performing economy in 2024, largely driven by the tightening fiscal policies initiated under the new political rule.

In 2025, however, consumption is expected to rise and from having dampened South American growth in 2024, Argentina will instead contribute to its increased pace in 2025.

Roughly 70 percent of South America's exports consist of raw materials, but the countries' very different raw material resources mean that the volatile prices of oil, gas, metals and agricultural products in recent years have different impacts in different countries.

South America's GDP is expected to increase by 2.1 percent this year, after which the growth rate will shift up to 2.8 percent in 2025. Growth is expected to reach 2.7 percent in 2026, in a progressively more favorable global economic environment and stronger development for world trade and thus increased demand for raw materials.

APPENDIX

COUNTRY	Swedish goods exports, current prices			GDP growth, constant prices, %			Inflation, %
	Exports in 2023, billion SEK	Change 2022–2023, %	Share of Swedish exports in 2023, %	2024p	2025p	2026p	2024
Europe				*1.3*	*1.6*	*1.8*	
Sweden				0.7	2.4	3.2	3.0
Denmark	147.9	-1.0	7.0	1.6	1.9	2.9	1.7
Finland	144.9	-1.3	6.9	-0.2	2.0	1.9	1.7
France	94.1	17.8	4.5	1.2	1.0	1.5	2.1
Italy	62.5	3.0	3.0	0.8	1.0	0.9	1.0
Netherlands	113.7	17.5	5.4	0.5	1.4	1.6	3.4
Norway	196.0	-9.5	9.3	1.8	0.5	1.9	3.2
Poland	80.8	-0.1	3.8	3.3	3.6	3.5	3.9
Russia	9.5	-8.5	0.5	3.9	1.7	0.5	8.0
Spain	46.3	19.5	2.2	2.8	2.0	1.6	2.8
UK	114.0	2.9	5.4	1.1	1.7	1.8	2.6
Czech Republic	19.5	9.9	0.9	1.0	2.9	3.5	2.3
Turkey	23.8	16.5	1.1	2.7	1.9	2.2	57.9
Germany	221.1	8.6	10.5	0.0	0.7	1.4	2.1
Austria	22.6	14.6	1.1	-0.4	1.3	2.0	3.0
North America				*2.3*	*1.7*	*2.1*	
Canada	26.0	76.1	1.2	0.9	1.1	2.2	2.5
Mexico	11.8	20.1	0.6	1.1	1.7	2.3	4.7
USA	188.5	2.0	9.0	2.5	1.8	2.1	3.0
South America				*2.1*	*2.8*	*2.7*	
Brazil	17.2	2.1	0.8	3.0	2.1	1.8	4.3
Chile	4.2	-2.8	0.2	2.5	2.9	2.4	4.0
Colombia	1.9	6.7	0.1	1.9	2.4	3.1	6.6
Asia and Oceania				*3.9*	*3.9*	*3.6*	
Australia	20.2	15.0	1.0	1.1	2.1	2.8	3.4
Philippines	1.7	9.4	0.1	5.7	5.9	6.0	3.4
Hong Kong	3.7	27.1	0.2	3.1	2.1	2.2	1.8
India	18.9	9.5	0.9	6.8	7.0	6.7	4.8
Indonesia	6.3	28.5	0.3	5.1	4.9	5.1	2.6
Japanese	22.0	-21.3	1.0	0.1	1.1	0.6	2.3
China	76.7	7.8	3.7	4.9	4.5	4.0	0.4
Malaysia	4.0	8.4	0.2	4.4	4.0	5.6	2.1
Singapore	12.7	-12.7	0.6	2.5	2.8	3.6	2.2
South Korea	20.5	18.8	1.0	2.3	2.1	2.2	2.5
Taiwan	8.4	3.9	0.4	3.7	3.1	2.8	2.0
Thailand	7.2	-1.0	0.3	2.5	2.9	3.2	0.6
Vietnam	2.9	20.5	0.1	5.9	6.2	6.3	3.6
The Middle East				*2.0*	*4.0*	*4.4*	
United Arab Emirates	12.1	40.5	0.6	3.8	4.9	5.1	2.8
Saudi Arabia	13.8	3.6	0.7	1.4	5.1	5.9	1.4
Africa				*2.8*	*3.4*	*3.5*	
Kenya	0.5	15.1	0.0	4.9	4.6	4.5	5.1
Morocco	2.9	-13.5	0.1	2.7	3.5	3.7	1.6
South Africa	10.8	-0.4	0.5	0.9	1.7	1.6	4.7

Sources: Oxford Economics, Statistics Sweden, Business Sweden

We help Swedish companies grow global sales and international companies invest and expand in Sweden.

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