

## Swedish growth still going strong

Surprisingly positive news for the Swedish economy, though there are a couple of caveats. But we don't think today's figures will make much of a difference for the Riksbank – its main focus remains inflation



Source: Shutterstock

Swedish GDP grew by 1.0% quarter on quarter (3.3% YoY) in 2Q, well ahead of what we and other had anticipated (consensus expectation was 0.5% QoQ). The main sources of growth were consumption (0.5pp), inventories (0.3pp) and net exports (0.2pp). Investment barely grew at all in, partly due to lower housing investment.

There are a couple of major caveats to these figures though. Firstly, today's release is the first time Statistics Sweden has published GDP figures 30 days after the quarter ends. Previously, the GDP figure was released two months after quarter-end. As the statistics office points out, today's figures are therefore based on more limited information and are, therefore, more likely to be revised in the future.

Secondly, the contribution from inventories and net exports (which account for about half of Q2 growth) are likely to prove short-lived. Inventories have contributed to growth three quarters in a row, which is fairly unusual. We'd be surprised if Q3 GDP doesn't see a negative contribution from inventories. At the same time, net exports were positive in part because imports actually fell in Q2. That's surprising given the strong overall growth in consumption, and it seems likely that imports

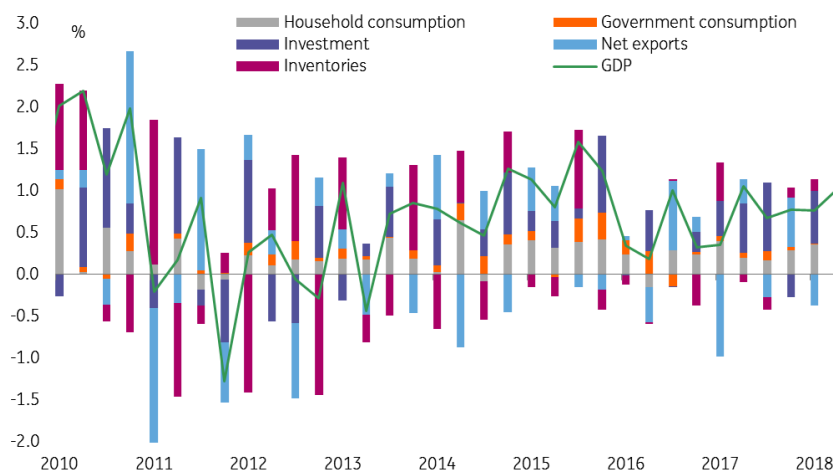
are likely to bounce back (which will pull down growth). In short, the Q2 figure is likely to be followed by weaker growth in the second half of the year.

**1.0%** 2Q GDP growth

Better than expected

That said, today's numbers are still broadly positive. The continued strength of consumption in spite of headwinds from the housing market and anaemic wage growth suggest Swedish consumers still feel comfortable about their economic situation. And solid export growth shows that Swedish companies are benefitting from the strong global economy.

### Contributions to Swedish GDP growth



Source: Macrobond and ING calculations

For the Riksbank, we don't think today's figures will make much of a difference. While growth was stronger than their forecast, the central bank is likely to take the early release with a pinch of salt and wait for the final GDP figure (released after the next Riksbank meeting in early September). And in any case, the Riksbank is more focused on inflation than growth at this point, so GDP figures aren't all that significant for monetary policy.

Still, the Riksbank's policy stance rests on the assumption that the Swedish economy will weather the slowing housing market without a major slowdown in growth and today's figures are consistent with that scenario. At the margin, that makes the central bank a little more likely to hike rates at the end of the year, though we still think soft core inflation means a rate hike is less likely than further delays.

