Monetary Policy Update

November 2024

S V E R I G E S R I K S B A N K

Rectification 18 November 2024

Page 7: Figure 2 updated with data for 2024-11-05, previously showed expectations through 2024-11-04.

Monetary Policy Update

The Executive Board normally holds eight monetary policy meetings a year. At four of the meetings, a Monetary Policy Report is published, describing economic developments and containing forecasts extending three years ahead. At the other four meetings, a shorter update is published, which describes macroeconomic developments in relation to the Riksbank's most recent forecast, the monetary policy decision and the deliberations the Executive Board made with regard to what is a suitable monetary policy.

Through the Monetary Policy Updates and Reports, the Riksbank also informs the general public about monetary policy, which makes it easier for external parties to follow, understand and evaluate the Riksbank's actions.

Regularly or upon request, the Riksbank shall submit an account of monetary policy operations to the Riksdag's Committee on Finance (Chapter 11, Section 1, Sveriges Riksbank Act [2022:1568]). These accounts are presented both in specific material for assessing monetary policy and in the Monetary Policy Reports and Updates.

The Executive Board made a decision on the Monetary Policy Update on 6 November 2024. The Update can be downloaded in PDF format from the Riksbank's website www.riksbank.se, where more information about the Riksbank can also be found.

No new forecasts are produced for the Monetary Policy Updates. Monetary Policy Report no. 4 2024 will be published on 19 December 2024.

Monetary policy considerations

The Riksbank has gradually eased monetary policy over the course of the year, as inflation has declined and economic activity has remained weak. Despite an expectation among economic agents of better times ahead, there are still few clear signs of a recovery. To further support economic activity, the policy rate needs to be cut somewhat faster than was assessed in September. It is important in itself that economic activity strengthens, but it is also a necessary condition for inflation to stabilise close to the target.

The Executive Board has therefore decided to cut the policy rate by 0.5 percentage points to 2.75 per cent. If the outlook for inflation and economic activity remains unchanged, the policy rate may be cut again at the next monetary policy meeting in December and during the first half of 2025, in line with what was communicated in September.

Economic developments are difficult to assess at present, especially those abroad and not least following the US election. There are risks linked to the geopolitical tensions, the economic policy abroad, the krona exchange rate and economic activity in Sweden that can affect the outlook for economic activity and inflation and lead to a different monetary policy stance.

International developments

The global economy has on the whole developed largely as expected. But there are clear differences between different regions. The US economy remains strong, while other important export markets for Sweden, such as the euro area and China, are showing clear signs of weakness. Indicators such as the purchasing managers' index point to global manufacturing activity, which is important for Swedish exports, being weak. The inflation outlook abroad remains largely the same since September.

The US economy is performing stronger than expected. GDP increased by 0.7 per cent in the third quarter, compared with the previous quarter, which is largely explained by strong household consumption. Unemployment has risen over the past year, but at a slow pace and from a historically low level. CPI inflation is continuing to fall, and was 2.4 per cent in September. PCE inflation, which is the Federal Reserve's preferred measure, is lower than CPI inflation and amounted to 2.1 per cent in September.

The euro area economy is weaker than the US economy. According to preliminary statistics, GDP increased by 0.4 per cent during the third quarter, compared with the previous quarter. Despite growth being weak in recent years, unemployment is still low. There are still major differences in economic developments in different countries. Germany, which is an important export market for Sweden, is struggling with a weak manufacturing industry, related to several structural problems. According to preliminary statistics, HICP inflation in the euro area was 2.0 per cent in October. Underlying inflation has been largely the same since last spring (see figure 1).

Central banks abroad are continuing to cut their policy rates. The ECB cut its deposit rate by 0.25 percentage points to 3.25 per cent in October. The Federal Reserve has not held a monetary policy meeting since September, when they reduced the target interval for their policy rate by 0.5 percentage points to 4.75–5 per cent.

Long-term interest rates have risen, above all in the United States. The expectations of the larger central banks' policy rates have varied substantially over the year, especially with regard to the Federal Reserve. Compared with September, market participants are expecting fewer rate cuts in the United States up to the middle of next year, which is mainly linked to unexpectedly strong economic statistics and an expectation of fiscal policy stimulus. The shift in expectations has in turn contributed to an upturn in bond yields and a stronger dollar. At the same time, expectations of the ECB have not changed very much (see figure 2).

There is considerable uncertainty about economic developments abroad. An increase in geopolitical tension could trigger new supply shocks and lead to inflation rising again and to global growth being lower than expected. There also remain questions marks regarding what economic policy will be pursued abroad. This applies not least in the United States, where possible decisions regarding increased trade barriers after the presidential election can have global effects on inflation and growth.

Developments in Sweden

The Swedish economy is in a mild recession, and there are as yet few clear signs of a recovery. Since the end of 2021, the Swedish economy has essentially not grown at all. According to preliminary statistics, GDP declined by 0.1 per cent in the third quarter, compared with the previous quarter, and was thus weaker than in the Riksbank's forecast (see figure 3). Domestic demand is still subdued, at the same time as manufacturing activity appears to be weakening.

The Riksbank's Business Survey testifies that households are cautious. Retail traders are still waiting for households to start consuming more, but this seems to be taking longer than expected. At the same time, indicators give a mixed picture of consumption: Statistics Sweden's consumption indicator and retail trade statistics point to some upturn, while card data point to a continued slow development. According to the National Institute of Economic Research's Confidence Indicator in October, sentiment in the household sector is above normal for the first time since December 2021.

The labour market has developed somewhat weaker than expected. Unemployment has shown a rising trend since the end of 2022, and amounted to 8.5 per cent in the third quarter (see figure 3). Together with other new information in the form of redundancy notices, recruitment plans and job vacancies, this indicates the labour market will remain weak for the rest of the year. Despite unemployment having risen, the number of persons employed is around the same as at the end of 2022.

Real wages have begun to rise as inflation has fallen back. Compared with the beginning of the year, the rate of wage increase has slowed down, roughly in line with the profile in the agreements negotiated at the beginning of the year. The lower inflation has contributed to real wages rising, which strengthened household purchasing power (see figure 4).

Economic activity is expected to improve next year. Although developments are currently weak, the Riksbank still assesses that domestic demand will accelerate next year. Household consumption is expected to increase, as real wages increase, interest rates fall and fiscal policy becomes more expansionary. Corporate investment is also expected to recover. Stronger domestic demand will create the conditions for a turn-around on the labour market and for lower unemployment.

Energy prices are pushing down CPIF inflation. In September, CPIF inflation amounted to 1.1 per cent. The fact that inflation has been below 2 per cent recently is explained by the falling energy prices. Measured as the CPIF excluding energy, inflation was 2.0 per cent in September. According to both measures, inflation was somewhat higher than expected (see figure 5). One important explanation for this was that food prices increased faster than expected. There are signs that food prices continued to rise in October, and the Riksbank will closely follow developments going forward.

Indicators suggest inflationary pressures in line with the target. The rate of increase in the CPIF excluding energy, measured in a shorter term than the usual twelve-month change, has been close to 2 per cent since the beginning of the year, although it has varied somewhat (see figure 6). Companies' pricing plans are close to their historical average, according to the National Institute of Economic Research's Economic Tendency Survey (see figure 7). Long-term inflation expectations remain firmly anchored around 2 per cent (see figure 8).

The krona exchange rate is weaker than at the time of the monetary policy meeting in September. The weakening has been largest with regard to the US dollar, although the krona has also weakened against the euro (see figure 9). There are several indications that it is primarily news about the US economy – and to a lesser extent the Swedish one – that has affected the development of the krona recently. The effect on inflation of the weakening since September is assessed as relatively limited, but the assessment is uncertain, and there is reason to closely monitor developments.

There is considerable uncertainty regarding the outlook for inflation and the economy. Domestic economic prospects are uncertain. There is also uncertainty regarding demand on important Swedish export markets. The risk remains that the recovery in the Swedish economy will take longer than expected. There are also risks linked to the geopolitical tensions, the economic policies pursued abroad and the development of the krona.

Policy rate cut by 0.5 percentage points to 2.75 per cent

The Riksbank has gradually eased monetary policy over the year. Inflationary pressures have gradually fallen, and the risk of excessively high inflation has declined significantly. At the same time, economic activity has remained weak. The policy rate was cut in May, August and September. In September, the Riksbank communicated that the policy rate could also be cut at the two remaining meetings this year and that a cut of 0.5 percentage points at one of the meetings was possible.

The interest rate cuts have contributed to lower interest rates for households and companies. Since the beginning of the year, the variable mortgage rates charged to households have fallen around as much as the policy rate. Companies are also facing a lower lending rate than in the spring. It is important that the rate cuts have a clear impact on other interest rates in the economy and the Riksbank is following developments closely.

The risks of too high inflation have decreased gradually. Inflation has fallen over the course of the year. Unusually low energy prices have resulted in CPIF inflation being below 2 per cent and being expected to remain there for some time. Underlying inflation, on the other hand, has remained close to 2 per cent, and long-term inflation expectations are firmly anchored at the target.

It is important that the recovery soon picks up speed. Despite an expectation among economic agents of better times ahead, there are still few clear signs of a recovery in the Swedish economy. Moreover, the risk of a weaker performance in global manufacturing activity has increased and thus also the risk of weaker Swedish exports. It is important in itself that economic activity strengthens, but it is also a necessary condition for inflation to stabilise close to the target.

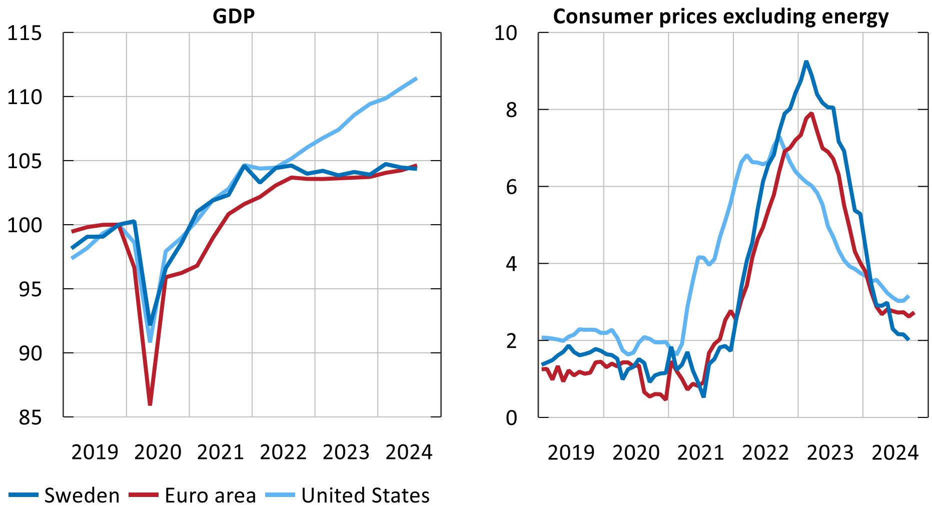
The Executive Board has decided to cut the policy rate by 0.5 percentage points to 2.75 per cent. Cutting the policy rate now at a slightly faster pace than was assessed in September will provide further support to the recovery in the Swedish economy, in a situation where the risk of inflation being too high is judged to have declined. If the outlook for inflation and economic activity remains unchanged, the policy rate may be cut again at the next monetary policy meeting in December and during the first half of 2025, in line with what was communicated in September. New detailed forecasts will be presented in the Monetary Policy Report in December.

Considerable uncertainty despite lower risk of high inflation. Economic developments in Sweden, and even more so abroad, are difficult to assess at present. In Sweden, the upside and downside risks for inflation are now assessed as relatively balanced. However, the uncertainty regarding global developments is greater than normal, which can also affect the outlook for inflation and economic activity in Sweden and lead to a different monetary policy stance.

Figures

Figure 1. GDP and consumer prices excluding energy

Index, 2019 Q4 = 100 (left) and annual percentage change (right)

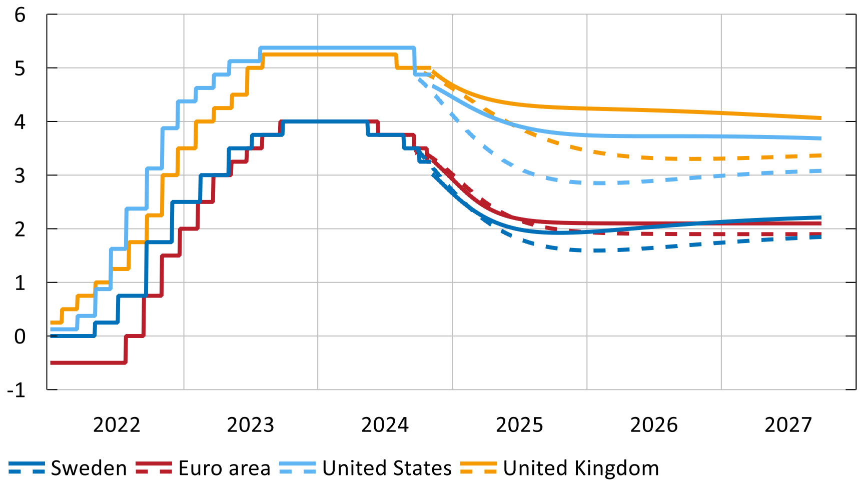


Note. The last outcome for Sweden (2024 Q3) is based on Statistics Sweden's GDP indicator. The right figure refers to CPIF excluding energy for Sweden, HICP excluding energy for the euro area and CPI excluding energy for the United States.

Sources: Eurostat, U.S. Bureau of Labor Statistics and Statistics Sweden.

Figure 2. Policy rates and policy rate expectations according to market pricing

Per cent

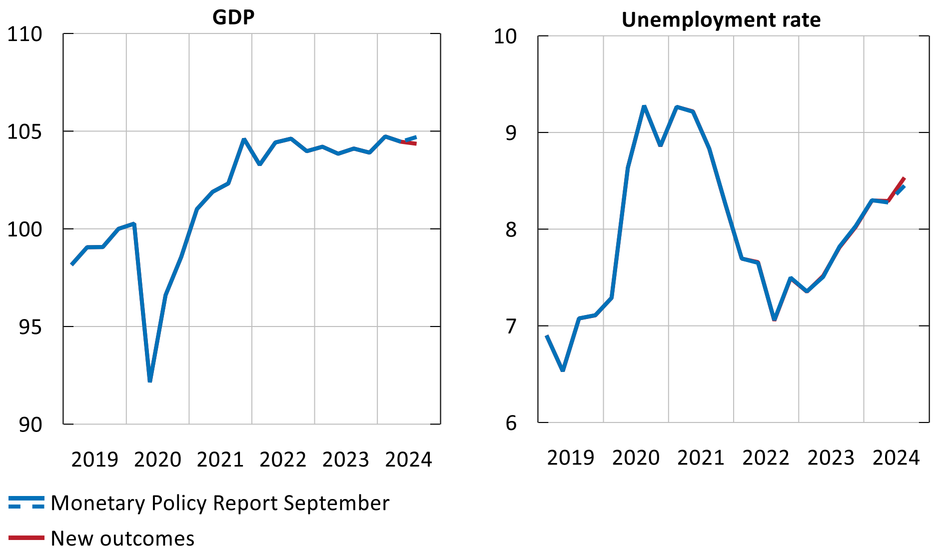


Note. The figure shows policy rates and market-based expectations of future policy rates. Solid lines represent expectations on 5 November 2024. Dashed lines represent expectations immediately prior to the monetary policy meeting in September.

Sources: National central banks and the Riksbank.

Figure 3. GDP and unemployment in Sweden

Index, 2019 Q4= 100 (left) and percentage of population aged 15-74 years (right)

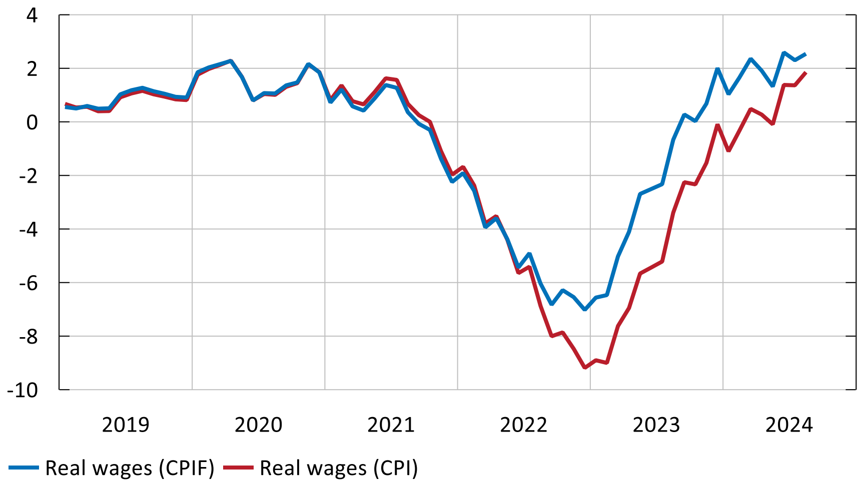


Note. The last outcome for Sweden (2024 Q3) is based on Statistics Sweden's GDP indicator (left). Seasonally adjusted data. Blue line refers to outcome and forecast at the monetary policy meeting in September. Red line refers to new outcomes since then.

Sources: Statistics Sweden and the Riksbank.

Figure 4. Real wages

Annual percentage change

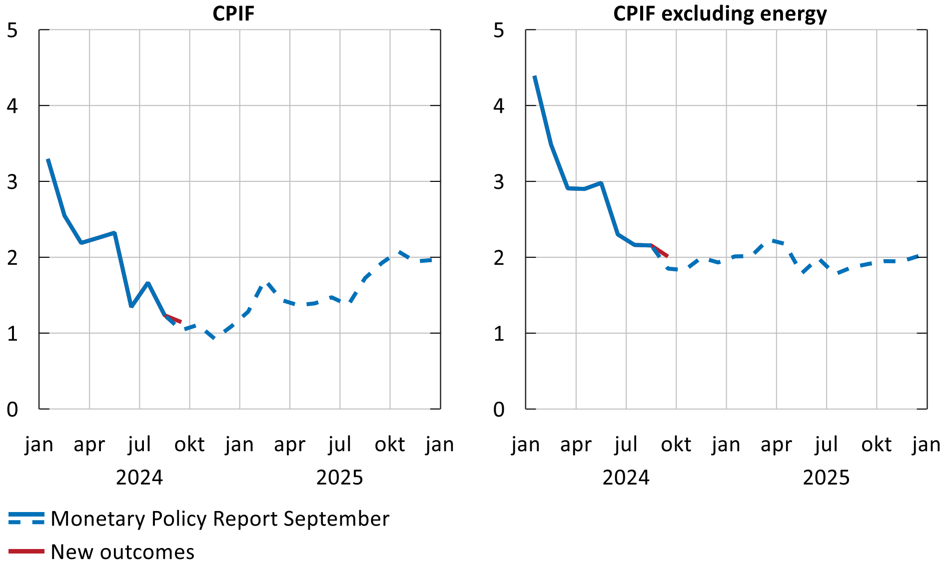


Note. Real wages are calculated as the difference between the rate of wage growth and the annual percentage change in the CPI and CPIF. Data on the rate of wage growth is preliminary and refers to the National Mediation Office's forecasts of the final outcomes.

Sources: Statistics Sweden, the National Mediation Office and the Riksbank.

Figure 5. The CPIF and the CPIF excluding energy

Annual percentage change

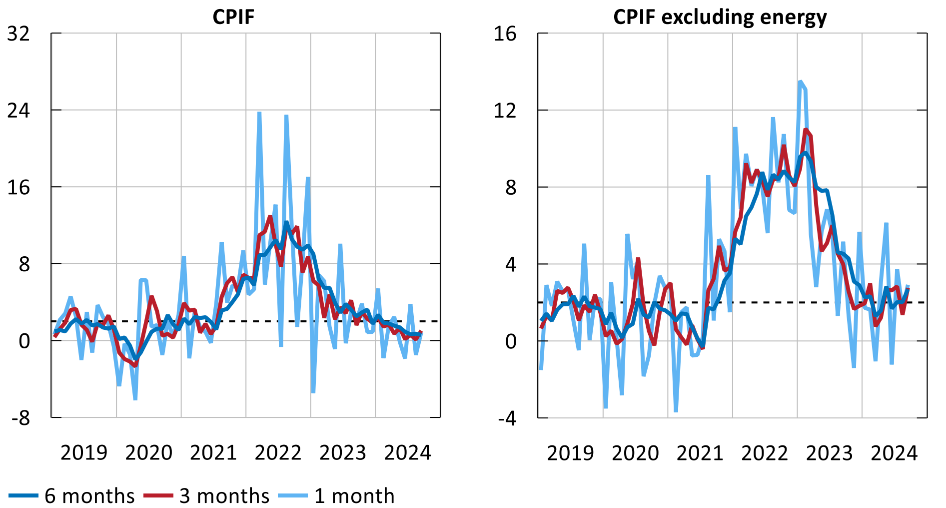


Note. Solid blue line and dashed blue line refer to outcome and forecast respectively at the monetary policy meeting in September. Red line refers to new outcomes since then.

Sources: Statistics Sweden and the Riksbank.

Figure 6. CPIF and CPIF excluding energy, short-term rates of change

1, 3 and 6-month changes, calculated as an annual rate in per cent

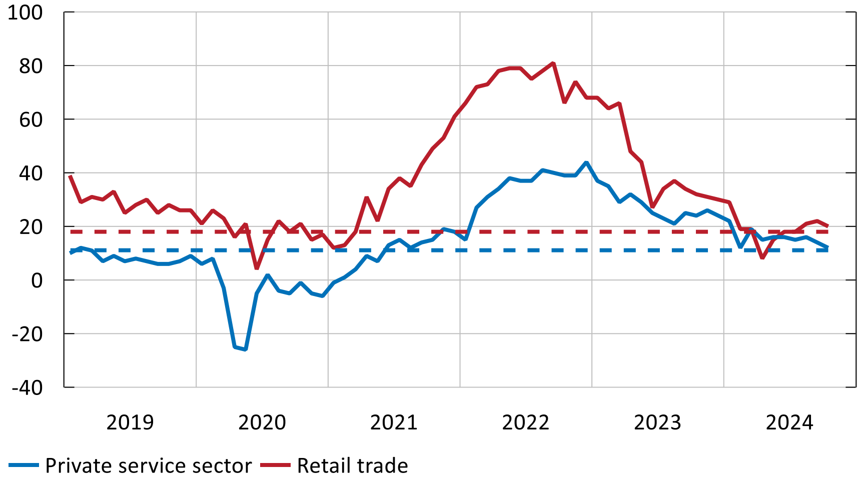


Note. Seasonally adjusted data. Black dashed line marks 2 per cent.

Sources: Statistics Sweden and the Riksbank.

Figure 7. Price plans in the Economic Tendency Survey

Net figures

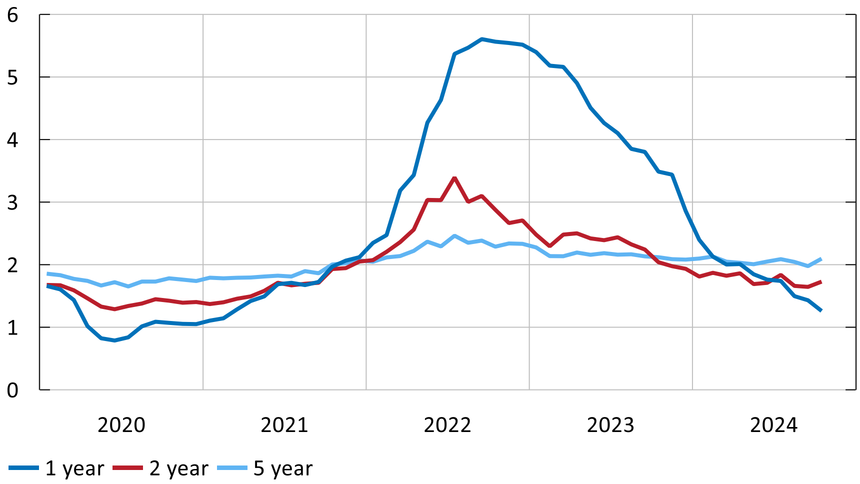


Note. The figure shows net balances of how many businesses responded that they plan to increase their prices compared with how many plan to reduce them in the coming three months. Seasonally adjusted data. The dashed lines represent the average for the period 2000-2024.

Source: National Institute of Economic Research.

Figure 8. Inflation expectations

Per cent

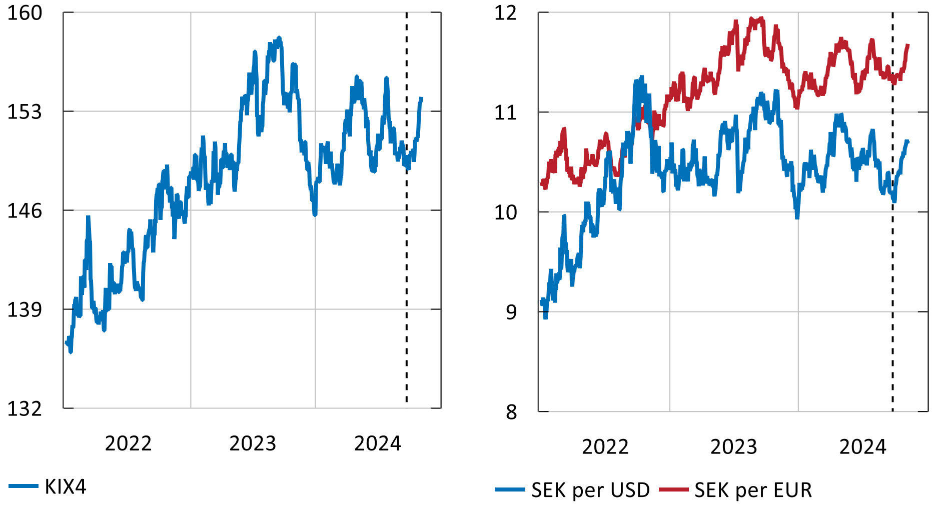


Note. Expectations refer to the CPI. Money market agents.

Source: Kantar Prospera.

Figure 9. Nominal exchange rate for the Swedish krona against KIX4 and the dollar and euro

Index, 18 November 1992 = 100 (left) and SEK (right)



Note. The KIX4 (krona index) is a weighted average against the US dollar, euro, pound sterling and Norwegian krone. A higher value indicates a weaker exchange rate. The dashed line marks the date of the monetary policy meeting in September.

Sources: Macrobond Financial AB and the Riksbank.

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