

Riksbank preview: growth worries without response

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Trends have been largely in line with the Riksbank's forecasts from July. This suggests that the Riksbank will leave its monetary policy unchanged at next week's meeting. Nevertheless, there are some dark clouds on the monetary policy horizon.

We expect the Riksbank to stay sidelined at next week's monetary policy meeting. The SEK exchange rate is weaker than expected, the latest inflation reading was slightly higher than the Riksbank's forecast and the labour market is characterised by bottlenecks. The Fed is gearing up for a rate hike, and global events have not deviated to an extent that will call for a monetary policy shift.

In other words, much indicates that the repo rate and asset buying programme will be left unchanged at next week's meeting. Likewise, the interest rate path will probably remain intact from the July report with an endpoint of around 0.6%. The Executive Board will likely be unanimous.

But there are some dark clouds on the monetary policy horizon. In February this year Governor Ingves said that “*if the economy begins to slow down when the policy rate is zero or even negative, this could entail a very difficult situation for monetary policy further ahead*”. Roughly coinciding with his comment, the economy started to lose momentum. The sluggish performance at the beginning of the year was followed by unexpectedly weak GDP growth in Q2.

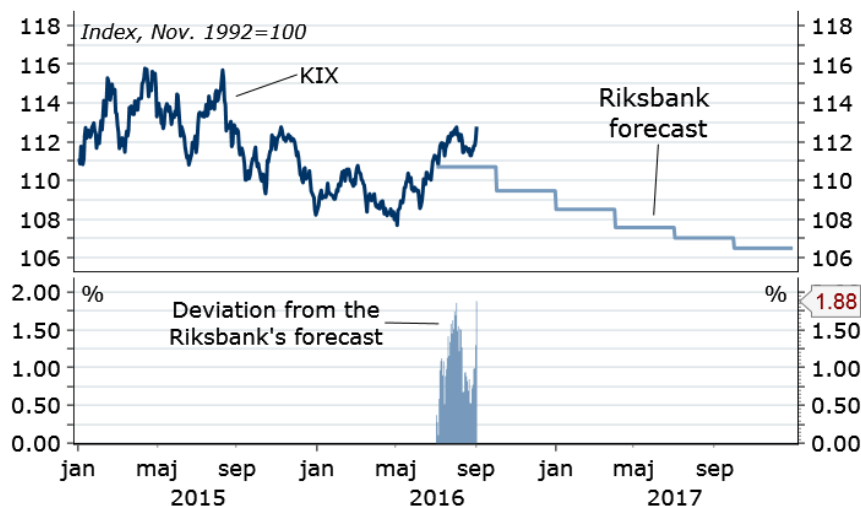
The main reason for the subdued growth figures was a surprise drop in exports. Indicators do not suggest any improvement over the near term. On the contrary, we see a risk that the decline will continue. In turn, this means that the wage-leading industries will be less likely to make higher pay demands ahead of the coming pay talks. Moreover, home prices have flattened and consumer confidence deteriorated. In our view, the slowdown in H1 marked the onset of a period with more moderate growth in the Swedish economy.

Although it seems unlikely that the Riksbank will sharply revise down its GDP forecast this time, economic trends are still a concern for the bank. With slowing growth, the likelihood of the long-awaited upturn in inflation dwindles. In addition, it raises the question of what the Riksbank will do if the economy weakens further.

CPIF inflation looks set to temporarily climb closer to the 2% mark around the turn of the year in line with the Riksbank's forecast. But our inflation forecast is lower than that of the Riksbank for most of next year, particularly excluding energy.

We believe that the Riksbank will lower its inflation projections for next year. Probably not in next week's monetary policy report, but in October or December. The Riksbank often acts when the inflation forecast is revised, which highlights the probability of more stimulus measures later this year. This is not our baseline scenario. But if so, an extension of the bond buying programme seems a likely move.

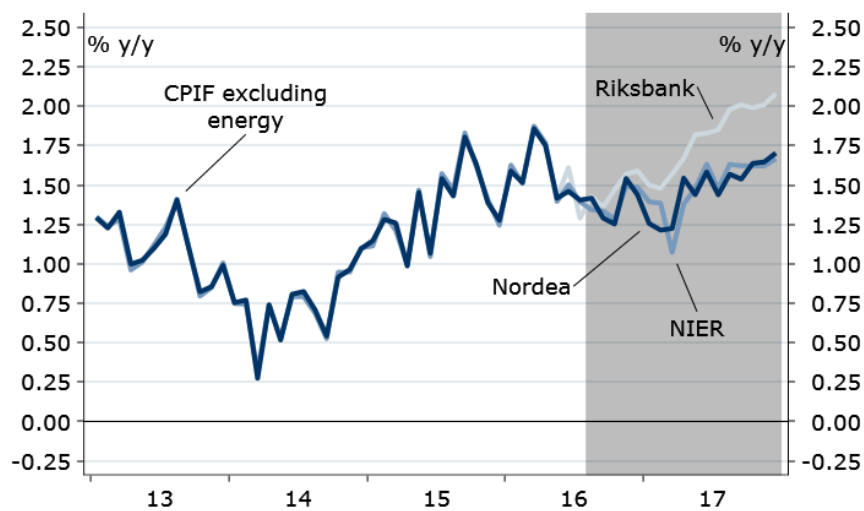
The Riksbank will publish its monetary policy decision on Wednesday 7 September. The day before Nordea will release *Economic Outlook*.



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