

BUSINESS SWEDEN



TRADE CONFLICT BURDENS THE GLOBAL ECONOMY

MARKET INSIGHT, SEPTEMBER 2019

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REFLECTIONS BY THE CHIEF ECONOMIST

DISTINCT GLOBAL SLOWDOWN AND TRADE CONFLICT

It is becoming increasingly clear that the world economy has entered a slowdown. Industrial production has stagnated in large parts of the world and sentiment is falling. Growth in world trade has fallen significantly and the first half of this year saw zero growth. The heightened trade conflict between the US and China, which is beginning to threaten the flow of materials in the manufacturing industry, is a strong contributing factor to the sharp slowdown in the world economy.

Growth in the global economy is slowing to around 3 per cent both this year and next year. While this does not represent a complete collapse, the growth rate is well below the historical average of 3.7 per cent for the period 2000–2018. It is the weakest figure in a decade. In fact, the global economy has only grown at a slower rate on two previous occasions since 2000; the first in connection with the burst of the IT bubble in 2001 and the second in connection with the financial crisis of 2008. So history tells us that the situation can change quickly and growth can fall rapidly.

The European economy is developing poorly with industrial activity cooling off sharply. The fact that the German economy is weakening more and more, going from being the growth engine of Europe to being a sinker in the region, is deeply worrying. This is true not least for Sweden and Swedish companies as three quarters of Swedish exports go to Europe. Growth is also slowing in large parts of Asia, as well as in North America where there are now clear signs of weakness.

A weaker global economy coupled with trade conflict is hitting Swedish exports hard. However, service exports are expected to increase a little faster as a result of increased demand as well as the upgrade to 5G technology in other countries which benefits sections of Swedish industry. Overall, Swedish exports are expected to increase by 3.1 per cent this year and 1.8 per cent next year. This is significantly lower than the historical average of 4 per cent during the period 2000–2018.

The global slowdown, together with trade conflict and low inflation, have led central banks around the world to change their stance and the low interest rate environment can be expected to remain in place for quite some time to come. The extremely low, and in some cases negative, policy rates means that the central banks' possibilities to stimulate the economy are likely to be limited. This means that fiscal policy will play a more important role when it comes to counteracting the current economic downturn.

At the same time there is no shortage of long term challenges. The issue of sustainability has risen to the top of the agenda among companies as well as consumers in large parts of the world. In the US, too, there are signs that conditions are changing for the economy and for business, which will potentially impact the rest of the world. In a break with 50 years of tradition, the message from Business Roundtable, the American association of CEOs, is that companies should also invest in their employees, protect the environment and exercise positive business ethics towards their suppliers. Let us hope this is the beginning of a globally sustainable economic development!

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WEAKENING PROSPECTS

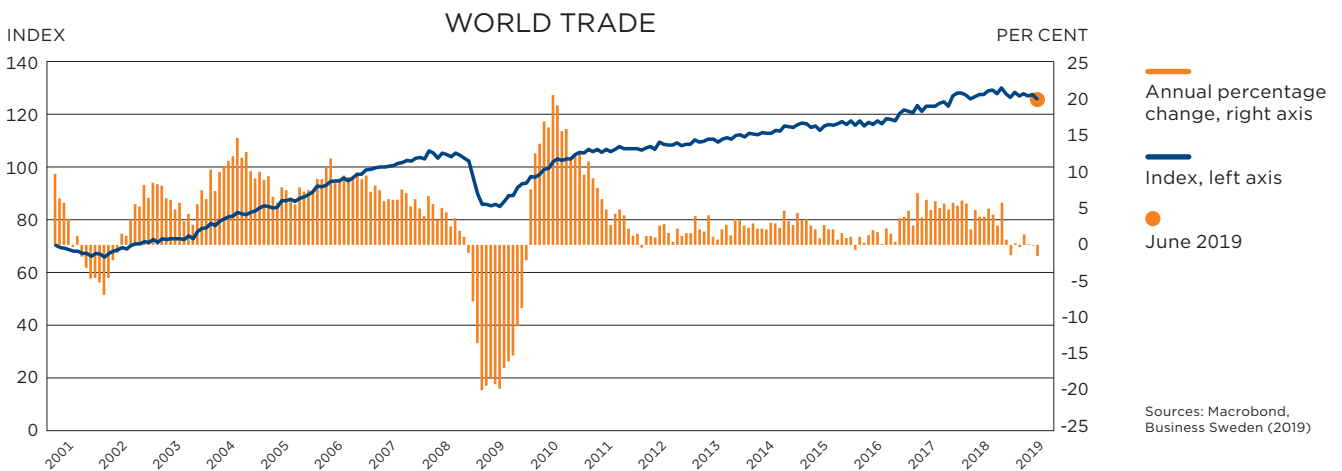
The global economy has clearly entered a slowdown phase. Industrial production has declined in all regions. Since the beginning of last year, confidence indicators, particularly for the manufacturing industry, have been trending downwards and are currently at levels that indicate weaker development in Europe. In the US, the Purchasing Managers' Index (PMI) for the manufacturing industry is now approaching a level that indicates a weakening. In addition, scattered news reports and company bulletins indicate a rising number of layoffs in the manufacturing industry and also in retail. Although the picture for the Asian economies is more varied, a clear slowdown in industrial production can also be detected for the region as a whole. In Japan, confidence in the manufacturing industry has fallen during the year, and currently indicates a weakening. In China, confidence indicators are less clear, even though industrial production has grown at a much slower pace in 2019 than last year. The PMI is at a marginally lower level today than a year ago and has in practice hovered around the 50-mark – the level that indicates weakening – during the past year.

Growth in world trade has declined sharply from 4.9 per cent in 2017 to 3.4 per cent in 2018, and in the first half of this year there was zero growth in world trade. Weak world trade and temporary factors in the automotive industry contributed to the weak development of exports in the euro area last year. Towards the end of 2018, concerns over weaker global

growth prospects increased, resulting in falling stock markets, while consumer confidence fell sharply. However, the situation in the financial markets stabilised around the turn of the year, mainly as a result of a softening stance in regard to further policy rate increases by the American central bank, Federal Reserve.

An escalation of the trade conflict between the US and China, which has reached a level that is becoming a threat to material flow in the manufacturing industry, increased conflict between Japan and South Korea, which threatens to put further pressure on the flow of materials, Brexit, a process that has perhaps become more unpredictable than ever and other geopolitical tensions, such as the conflict in the Strait of Hormuz, are phenomena that have, to varying degrees, contributed to the relatively severe slowdown in the world economy. In addition, the climate change issue during the past year has engaged many consumers, at least in Europe, and it cannot be ruled out that a certain shift in attitudes has given rise to changes in consumer habits that are also beginning to manifest themselves in macroeconomic terms.

During 2019, the global economy has slowed down further and is expected to grow by 2.9 per cent. This is not a collapse, but the growth rate is clearly below the historical average of 3.7 per cent for the period 2000–2018. It is the weakest growth rate in a decade. In actual fact, the global economy has only grown more slowly on two occasions since 2000. The first time was in connection with the burst of the IT bubble



Sources: Macrobond, Business Sweden (2019)

in 2001 (when global GDP growth reached 2.4 per cent) and the second time was during the financial crisis of 2008/2009 (when global GDP shrank by 0.5 per cent). Global growth will be marginally higher next year.

A WEAK EUROPE WITH INDUSTRY COOLING DOWN

At the end of the first half of 2019 it became clear that the growth rate in Europe has slowed down significantly. The loss is mainly due to a stagnation of industrial activity. A decline in global demand and a negative impact on the continuing US–China trade conflict means that exports are experiencing weak development. Private consumption is managing to keep the economy afloat. Confidence indicators show that households remain optimistic, but that their faith in the future is on the decline.

The GDP growth rate in Europe was 2.1 per cent in 2018. This is expected to fall to 1.4 per cent this year and 1.3 per cent in 2020. However, there is an imminent risk that the outlook for the European economy is developing weaker than expected and the forecast will later be further revised downwards. The trade war between the US and China has been stepped up with penalty tariffs on virtually all commodity trade between the two countries. The US has announced that the remaining, not yet penalised imports from China of USD 175 billion – mainly consisting of consumer goods – will be subject to penalty tariffs as of 15 December this year. At the end of the year, the US threat of penalty tariffs on passenger cars may be raised once more which, if they become a reality, will hit European industry hard. The likelihood of the UK leaving the EU without a deal on 31 October has also increased.

The domestic demand is supported by rising real wages and a continued positive development of the labour market. Household confidence in the economy is relatively high, even if a certain decline can be seen from various indices over the last few months.

The German economy, which is the largest in the euro area and accounts for just over 28 per cent of the euro area's total GDP, is continually weakening. Industrial production has fallen since the third quarter of 2018 and monthly data shows that the recession in industry will continue in the second half of this year. Due to weak export development, the growth rate in the German economy fell sharply last year. Stricter emission regulations for the automotive industry but also weaker international demand, especially from China, contributed to the weak

development of German exports. China is the third largest recipient of German export goods and the more subdued activity in China has a major impact on German export development.

In France, which is the euro area's second largest economy with 21 per cent of the euro area's total GDP, the global economic slowdown is also restricting export growth. But the downturn has not yet hit the country's industry.

On the contrary, the rate of growth in industrial production is increasing following a weak 2018. Italy's economy has serious problems and is teetering on the verge of recession. The Italian economy, which is the third largest economy in the euro area and accounts for 15 per cent of the euro area's GDP, is relatively export dependent. Germany – the recipient of just over 12 per cent of Italian exports – is by far the most important export market. Therefore, weak growth in Germany is having a major impact on Italian exports.

The Spanish economy is down slightly this year. However, domestic demand is still robust at the same time as exports are expected to increase somewhat after the slowdown of last year. The UK economy finds itself in a slump. Investments and exports have stagnated. Industrial production is expected to fall even further this year after a very weak 2018. The low growth rate in the UK economy persists despite the positive influence by a strong labour market, which, in combination with a less constrained fiscal policy, benefits household consumption.

SLOWING DOWN IN LARGE PARTS OF ASIA

In most of the Asian economies a clear slowdown in growth can be seen in 2019 compared with 2018. One exception is Japan which is growing at the same rate this year as in 2018. The entire region is adversely affected by ongoing trade conflicts. In China, the growth rate slowed down somewhat in 2018 and this slowdown is also expected to continue in the coming years in China. The reason is most likely explained both by temporary factors such as the ongoing trade war with the United States, and by more structural factors, such as the transition to more consumer-driven, rather than investment-driven growth. Domestic demand is being dampened by weak sentiment, low credit growth and reduced activity in the property market. Industrial production has had a more subdued development in 2019 than in the previous year.

In Japan, the annual rate of growth in industrial production fell during the second quarter

of this year. Weak demand from the outside world and increased trade war-related global uncertainty also indicate a fairly restrained development in industrial production during the rest of the year. Furthermore, a continued low Purchasing Managers' Index does not give any reason to believe that a turnaround is imminent. In India, a weak development in the manufacturing industry is expected to continue to weigh on GDP development for some time to come. Fiscal and monetary policy stimulants have been announced with the aim of mitigating or even eliminating the slowdown in the Indian economy. Other countries in Asia, of which the vast majority are major exporters to China, are burdened by the slowdown in China. Vietnam is possibly the exception here as it has resisted the pressure quite well and to some extent seems to have been able to derive some benefit from the US-China trade war. One example of this is that several large electronics companies have moved their manufacturing to Vietnam, thereby escaping the penalty tariffs imposed by the US on Chinese goods exports.

WEAKENING SIGNS IN NORTH AMERICA

Growth in the US economy peaked last year and is slowing down both this year and next year. This is largely due to the fact that the positive effects of the fiscal stimulus in the US are gradually diminishing, while weaker demand from the rest of the world is dampening the prospects for exports this year. However, household consumption remains solid, supported by a

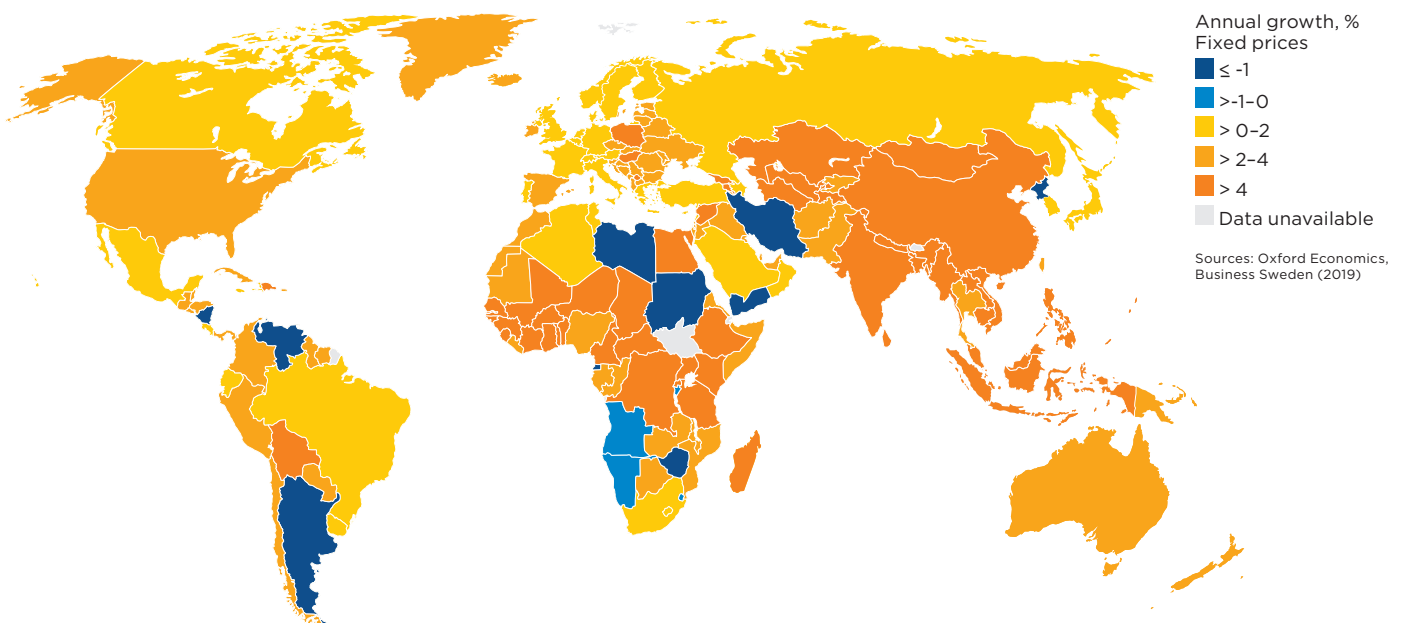
strong labour market. Unemployment has fallen to 3.7 per cent. The US economy continues to develop well, but is not sustainable in the long term with a national debt of 105 per cent of GDP that continues to rise.

LOW INTEREST RATE POLICY REMAINS

The US central bank, Federal Reserve (Fed), was the first to begin normalising its monetary policy when the policy rate in 2015 was raised for the first time since the outbreak of the financial crisis in 2008. Since then, the policy rate has been raised another eight times, the last increase being decided at the end of 2018. After that, the rate remained the same until August this year when the Fed decided to lower it by 25 basis points and a further 25 points in September to 1.75–2.0 per cent. The Fed has put itself in a relatively favourable starting position, where an policy rate that is clearly above zero creates desirable room for manoeuvre now that the economy is on its way down. Therefore, it is likely that more policy rate cuts can be expected this year unless incoming data gives the Fed reason to re-evaluate the economic situation.

The European Central Bank, ECB, closed its net purchases of government bonds at year-end 2018/2019. However, the economic outlook in the euro area has been surprisingly negative and the risks across the board are on the downside. At the same time, inflationary pressure continues to remain low. The ECB has therefore changed course and the direction of monetary policy is once again expansionary. At a meeting

FORECAST GDP GROWTH 2019



of the ECB's Governing Council on 12 September, it was decided that its most important policy rate be left unchanged. However, it was decided to reduce the rate on its deposit facility by 10 points to -0.5. The Governing Council also announced that it would resume its bond purchasing programme.

GDP growth in the UK is expected to remain moderate this year and the uncertainty surrounding Brexit means that the downside risks dominate. The Bank of England (BoE) is expected to exercise caution with policy rate hikes until the political situation around Brexit becomes clear. No policy rate hike is to be expected in the near future. In the case of a no-deal Brexit, a policy rate cut is not unlikely. It is also conceivable that the BoE will be forced to respond to the actions of other central banks (Fed and ECB), but bearing in mind that it was previously acceptable for inflation to exceed the target when this was due to the weakening of the pound, one cannot be too certain that the BoE will be prepared to follow suit. In Japan, deviation from the inflation target of 2 per cent will be large both this year and next year. The Japanese central bank, Bank of Japan, is therefore continuing its low interest rate policy in the coming years with its negative policy rate and bond purchasing programmes in a bid to keep its 10-year interest rate at zero per cent.

In several currency areas, policy rates are now at such a low level that the central banks' possibilities to stimulate the economy must be regarded as non-existent or at least relatively limited. This possibly gives fiscal policy a more important role to play when it comes to counteracting the current economic downturn. One potential problem in this context is

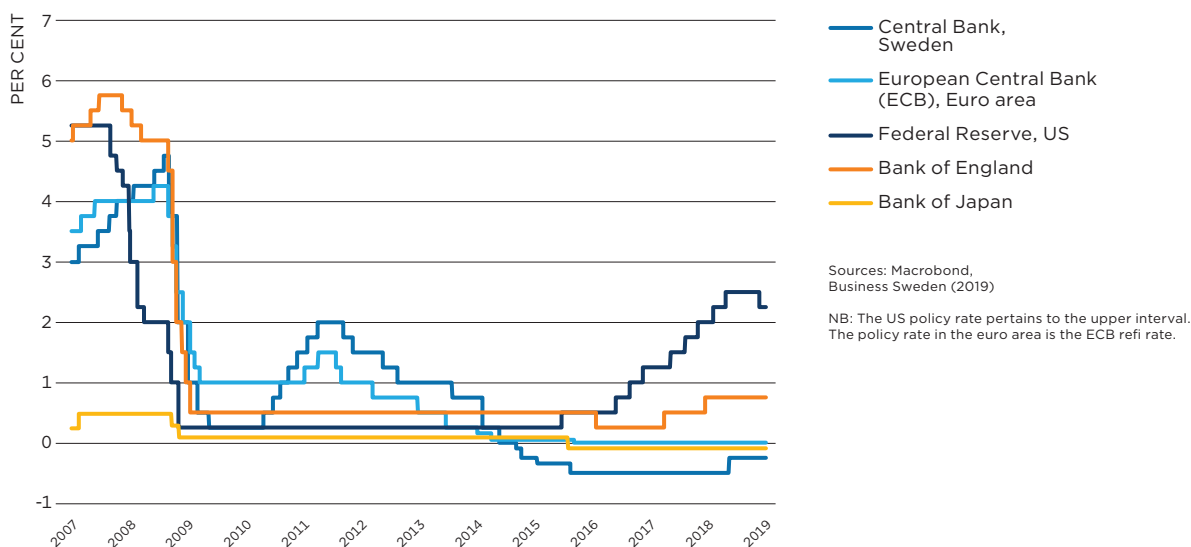
FORECAST GDP GROWTH, %

Region	GDP growth, % fixed prices			Share of global GDP 2018 (%)
	2018	2019F	2020F	
Global*	3.6	2.9	3.1	100.0
Sweden	2.5	1.6	1.4	0.7
Asia & Oceania	4.8	4.0	4.1	36.8
Europe	2.1	1.4	1.3	25.0
North America	2.8	2.1	1.6	27.7
South America	0.8	0.0	1.3	4.9
Africa	3.2	2.9	3.6	3.1
Middle East	1.9	1.6	2.5	2.5

NB: All calculations in fixed prices.
 *Growth reported as purchasing power adjusted GDP
 Sources: Oxford Economics, Business Sweden (2019)

that the possibilities for fiscal policy to stimulate the economy are limited in several countries by the state of public finances with negative reserves and high public debt. Several countries have explicit binding fiscal frameworks to adhere to. This applies, for example, to all EU member states that are not permitted to allow their public debt to exceed 60 per cent of GDP and budget deficit to not exceed 3 per cent of GDP. Even in countries that lack explicit fiscal frameworks, low savings combined with a high level of public debt may result in limited opportunities for stimulating the economy through expansionary fiscal policy. With a high debt level, the risk premium increases which, in turn, increases the cost of the debt. This may jeopardise and push away other expenses and/or raise the debt level further. In addition, the higher risk premium may have a spillover effect on banks and financing costs at large companies which, in contrast to the intended impact, may in fact dampen economic activity.

POLICY RATES



TRENDING DOWNWARDS

After a period of relatively strong growth, Sweden's GDP growth rate slowed down in the first half of 2019. Confidence indicators for households and companies have fallen since the autumn of 2018, and employment declined during the first half of the year. Unemployment seems to have bottomed out and most indicators show that the Swedish economy is in a distinct slowdown phase and that the country's GDP will grow at a slower pace this year and next year.

Until the beginning of 2018, growth in Sweden's GDP has benefitted from a positive development in domestic demand, but since then, growth has largely come from exports. There are no clear signs that domestic demand – which has so far been fueled by, among other things, a strong development in housing investment and migration-related public consumption expenditure – will pick up speed again in the coming year. Nor does the National Institute of Economic Research's confidence indicator, which monitors the households' views of both their own economy as well as the Swedish economy, give any hope of an imminent surge in domestic demand. In addition, export growth has begun to slow down as a result of an increasingly weaker world demand, fueled by trade conflicts and Brexit. In other words, most indicators show that GDP will grow at a more moderate pace in the future. From a growth rate of 2.5 per cent in 2018, GDP is expected to grow by a modest 1.6 per cent in 2019, and then further decline to 1.4 per cent in 2020.

Even if employment has declined over the last two quarters and in parallel with labour shortages in the business sector, the shortages are still higher than normal. In the wake of the weaker demand situation, unemployment is expected to rise somewhat this year and next year.

In December 2018, the Swedish central bank, Riksbank, raised its policy rate for the first time in more than seven years. Inflation of around the target of 2 per cent, well-established inflation expectations and continued positive development of the Swedish economy resulted in a first step towards a normalisation of monetary policy. However, underlying inflation

FORECAST FOR SWEDEN'S TOTAL EXPORTS GROWTH (GOODS AND SERVICES), %

Region	Fixed prices, per cent		Share of Swedish goods exports 2018, %
	2019F	2020F	
Europe	3.9	1.7	72.8
Asia & Oceania	-0.7	2.6	13.2
North America	2.4	1.3	8.0
South America	0.9	0.5	1.4
Africa	1.7	3.2	1.9
Middle East	4.4	3.1	1.6
World	3.1	1.8	100.0

NB: All calculations in fixed prices. Due to rounding, shares do not add up to 100. Sources: Oxford Economics and Business Sweden (2019)

(inflation adjusted for energy prices) remains low. Despite a slowdown in the economy, underlying inflation is projected to rise in the future to around the 2 per cent target both this year and next year. This is due to a high utilisation of resources which, with a certain lag, will result in higher inflationary pressure. The Riksbank has signalled that the next policy rate hike will come at the end of the year or the beginning of next year. Whether the Riksbank sticks to its current intention largely depends on the development of inflation, which is expected to be close to the target in the coming years, but also the development of inflation expectations will be of great importance. To some extent, the Riksbank will also need to relate to the monetary policies of the Federal Reserve and the European Central Bank. However, the indications are that there will be fewer policy rate hikes than are forecast by the Riksbank rather than more.

WEAKER GLOBAL ENVIRONMENT AND TRADE CONFLICT HIT SWEDISH EXPORTS

World trade growth lost momentum during 2018 and landed at 3.4 per cent, compared with 4.9 per cent in 2017. This is lower than

the historical average of just over 4 per cent for the period 2000–2018. The results in the first half of the year indicate that the development of world trade has completely stalled. Despite the lower growth in world trade last year, Swedish exports grew at a slightly faster rate in 2018 than in the year before (4.0 per cent, compared with 3.7 per cent in 2017). The picture of weaker export development is also reflected in Business Sweden's Export Managers' Index, EMI, which has shown a downward trend since the second half of 2018. However, EMI remains just above the 50 mark, which indicates that sentiment among export companies continues to be better than normal. A strong export order intake during the first half of the year also gives reason not to take an overly gloomy view of the current situation for Swedish exports. On the other hand, the forward-looking subindex EMI forecast, which, with the outcome of the third quarter, fell slightly below the 50-mark, indicates that the general mood in relation to a three month outlook is pessimistic.¹

Exports are expected to increase somewhat slower this year, and next year exports are expected to increase at a very moderate rate, which can be explained by lower import demand from some of Sweden's most important export markets. Investment growth, especially in the euro area to which a large proportion of Swedish exports go, is slowing down, which has a negative impact on Swedish goods exports, since it is largely made up of input and investment goods. The development of goods exports is therefore expected to be moderate in the years ahead. Services exports – which have been weak in recent years as a result of, among other things, a weak development in the export of business services – is expected to show an improvement in the coming years. This can be explained by increased demand and upgrading to 5G technology in other countries, which benefits certain sectors of Swedish industry. Overall, exports – which benefit from the weak krona – are expected to increase by 3.1 per cent this year and 1.8 per cent next year. This can be compared with the historical average of 4 per cent during the period 2000–2018.

The trend for Swedish exports differs somewhat between different regions. As far as Europe, the Middle East and North and South America are concerned, growth in Swedish exports to these countries will further decline in 2020 while in the other regions it will increase. The differences in Swedish export development between regions and years do not always reflect differences in GDP development. This is

because it is also important for Swedish exports how GDP, in terms of usage, is composed in the different economies. This, in turn, is because the import content differs between the various components of demand (e.g. private consumption, investments and exports). In several Asian economies, the import content of the economy is declining this year, probably because the weak import trend is partly related to the weak export figures (exports have a relatively large import content). Next year, the import content of several important recipients of Swedish exports in Asia is expected to return to more normal levels, which, all things being equal, benefits Swedish exports.

The difference between the regions, in terms of Sweden's export growth, primarily reflects these changes in composition. To a lesser extent, the regional differences are also explained by the fact that the regions are expected to be somewhat out of step with each other. In several countries in Asia, a recovery in GDP growth is expected as early as 2020 (key exceptions are China and Japan), while the economic downturn is deepening in several of Europe's economies.

The downside risks to Swedish exports are imminent and mainly associated with escalating trade conflicts but also with underlying weaknesses in the European economy to which almost three quarters of Swedish exports go. As an EU country, Sweden would be severely affected by increased trade tensions between the EU and the USA, especially if car tariffs are significantly increased. The Swedish automotive industry employs approximately 135,000 people in Sweden (including subcontractors) and is a major exporter accounting for more than a tenth of Swedish goods exports. The uncertainty surrounding the risk of a no deal Brexit may also be regarded as a risk which, if it materialises, can be expected to result in a weaker development of Swedish exports than is currently in the forecast.

¹ For more details on the latest results, see the report "Gloomy Outlook for Exports". Business Sweden's Export Managers' Index for the third quarter 2019.

GROWTH LOSING STEAM

After the first half of 2019, it is clear that the growth rate in Europe has slowed significantly. The decline is mainly due to stagnating industrial activity. A slowdown in global demand and the negative impact of the ongoing US-China trade conflict means that export development is suffering. Private consumption is managing to keep the economy afloat. Confidence indicators show that households remain optimistic, but that their faith in the future is on the decline.

The domestic demand is supported by moderately rising real wages and a continued positive development of the labour market. In the EU as a whole, unemployment has fallen to a record low of 6.3 per cent. Household confidence in the economy is relatively high, even if a certain decline has been detected by various confidence indicators in recent months. The EU Commission's Consumer Confidence Indicator – which measures respondents' views of developments of the national and private economy – fell in 2018 but has levelled out since the turn of the year, with a slight decline noted for both the EU28 and the euro zone in August. However, the level remains significantly above the historical average.

By way of contrast, exports are noticeably failing as a result of subdued global demand, a position that could not be averted in view of the successive weakening of the euro against other leading currencies. The slowdown is reflected in industrial production – which stagnated in the first half of this year – and in a declining rate of investment. In the euro area, the PMI for the manufacturing industry has trended downwards from a peak of 60.6 in December 2017 to 45.6 in September 2019. All major European economies report index numbers below 50, which indicates a contraction in the industry. For the service sector, the situation looks brighter, going from 51.2 points to 52.0 points between January and September this year.

The weaker economic climate and an inflation rate of around 1 per cent in the euro area have forced the European Central Bank, ECB, to postpone the normalisation of interest rate policy, which would have been achieved through successive rate increases from a

negative policy rate of 0.40 per cent. Instead, at its September meeting, the bank decided on an policy rate cut of 10 points and a resumption of bond purchases.

Overall, GDP growth in Europe amounted to 2.1 per cent in 2018, and is expected to fall back to 1.4 per cent this year and 1.3 per cent in 2020. However, there is an imminent risk that the outlook for the European economy will deteriorate further and that the forecast will be revised downwards. The trade war between the US and China has been stepped up with penalty tariffs on virtually all goods traded between the countries. The United States has announced that the remaining USD 175 billion worth of so far unaffected Chinese imports – which mainly comprise consumer goods – will be subject to penalty tariffs from 15 December this year. At the end of the year, the US threat of penalty tariffs on passenger cars can be reactivated, which, if they become reality, can hit European industry hard. The likelihood of the UK to leave the EU without a deal on 31 October has also increased.

FROM GROWTH ENGINE TO SINKER

The German economy is increasingly weakening. Industrial production has fallen and monthly data shows that the recession in industry will continue in the second half of this year. Capacity utilisation in industry has fallen by just over 4 percentage points to 84 per cent since the top listing of 88 per cent at the beginning of 2018, at the same time as the rate of investment is stagnating.

A focus point for the German industry's slow progress is the automotive industry with its more than 800,000 employees in the country and a substantial network of suppliers in Europe. During the past year, the industry had to take the economic consequences of a misrepresentation of emissions from diesel engines as well as stricter national and local emission demands. The challenges are multi-faceted. At the same time as the market for passenger cars is falling – primarily in China – the industry must make the right decisions and pay for the development of electric and self-driving vehicles.

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**THE DECLINE IS
MAINLY DUE TO
STAGNATING
INDUSTRIAL
ACTIVITY**

The problem is further exacerbated by a possible imminent Brexit, which will affect 20 per cent of the exports of German passenger cars.

Demand is being sustained by private consumption supported by moderate wage increases and a continued stable labour market. Unemployment remained at 5 per cent in August, the lowest level, reached in November 2018. Relatively strong monthly data for the retail trade and passenger car sales indicate that the headwinds in the industry have not yet reached the service sector.

Exports are expected to grow by a modest 0.6 per cent this year, which is a weakening of last year's 2.2 per cent. Germany's GDP growth is expected to fall to 0.6 per cent in 2019, from 1.5 per cent in 2018. For 2020, growth is projected to increase slightly to 0.8 per cent.

Optimism is greater in France, where GDP growth has been gradually dampened, but without any significant downturn for industry. On the contrary, the growth rate of industrial production is increasing after a weak 2018, despite a clear weakening of the export development trend for the current year. Domestic demand underpins manufacturing, which also benefits from large orders in the aerospace and defence sectors. The rate of investment remains positive and makes a significant contribution to the economy.

Private consumption is growing slightly, but household confidence in the economy has increased noticeably since the government's conflict with the "Yellow Vest" movement abated. Purchasing power is supported by low inflation, a strong labour market and the government's concessions to the protest movement, which include, among other things, reductions in the income tax.

France's GDP growth was 1.7 per cent last year. The economy is expected to shift down to 1.3 per cent growth in 2019 as well as in 2020.

BREXIT SOON A REALITY?

The UK economy is in a slump. Investment and exports have stagnated. Industrial production is expected to fall further this year after a very weak 2018. Monthly data shows fluctuations in the production rate, which is partly due to the industry's preparations for the country's exit from the EU. For example, companies are increasing their inventories to offset disruptions in supply chains that may be a consequence of Brexit. At the same time, the hard hit automotive industry, which employs almost 200,000 Britons, has reduced investments to a minimum, while great resources have been spent on crisis planning.

The bright spot is private consumption that drives the economy, with households benefitting from rising wages, lower inflation and a continued robust labour market. Unemployment is at a record low of 3.8 per cent.

Britain's GDP growth was 1.4 per cent in 2018 and the forecast for 2019 is a slightly lower growth rate of 1.2 per cent, which assumes that the country will withdraw from the European Union in an orderly manner. However, the political chaos surrounding Brexit continues, with a new exit date set for 31 October, 2019. In the ongoing battle between the government and parliament – whose majority is opposed to Brexit without a deal – the new Prime Minister, Boris Johnson, has so far failed to bring about a new election, which according to opinion polls, would strengthen the ruling Tory party.

Italy's economy has serious problems and teeters on the verge of recession. Industrial production is falling as are investments. The significant Italian automotive industry – which exports 60 per cent of its production and accounted for USD 24 billion in exports of vehicle parts in 2018 – is facing a failing domestic and global market. Nevertheless, the PMI for the manufacturing industry rose slightly to 48.7 in August, while the service sector index was just over 50. Private consumption developed very weakly in line with a significantly cooler labour market. However, exports are expected to rise somewhat during the year.

Prime Minister Conte (politically neutral) has been leading a new coalition government between the Social Democrats and the Five Star Movement since the beginning of September, after the right wing nationalist party Lega chose to leave the government. The new government is EU-friendly and is expected to ease Italy's currently strained relationship with Brussels. The country's economy grew by 0.7 per cent in 2018, while the forecast shows almost zero growth – 0.1 per cent – for 2019 and 0.4 per cent for 2020.

The Spanish economy is still showing positive growth but has slowed considerably. Private consumption is now growing at a slower rate. Unemployment has fallen to 14 per cent, although the downturn is levelling off. Investment rates are declining as are exports. Spain's GDP increased by 2.6 per cent last year and is expected to grow by 2.3 per cent in 2019 and 1.8 per cent in 2020.

COOLING DOWN IN EASTERN EUROPE

In Central and Eastern Europe, too, growth is falling, albeit from relatively high levels. The

slowdown in Germany – the main market for Eastern European industry, not least the automotive industry – is being felt by many manufacturing companies.

Poland's economy is expected to grow by 4.0 per cent this year – down from a strong 5.2 per cent in 2018 – and is characterized by continued robust private consumption, high investment rates and large public spending increases. However, industrial production and exports are flattening out due to a declining demand in important export markets where the decline in Germany in particular is taking its toll. For the Czech Republic, the forecast is gradually declining growth rates this year and in 2020, in line with a slowdown in private consumption. The Hungarian economy defies the softening growth trend in the rest of the world and continues to deliver high growth figures, including a spurt in the investment rate of 15 per cent during 2019. The EU has allocated EUR 25 billion to Hungary in its Structural Funds programme, which expires in 2020. The Baltic economies also continue to develop strongly in a reversal of the growth rate chart where Estonia is expected to pass Latvia this year.

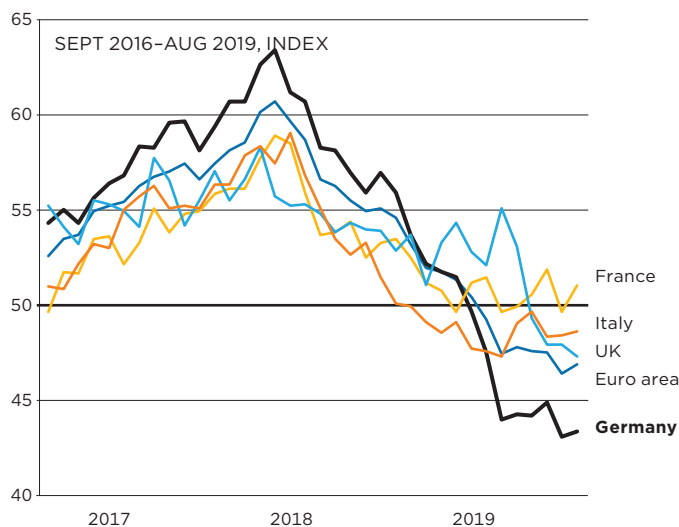
In Russia, practically all indicators show that the economy is going in the wrong direction. The rate of growth in industrial production is on the decline at the same time as investment is falling and exports are stagnating. Domestic demand is developing weakly. Household purchasing power is undermined by rising inflation – which is expected to amount to just under 5 per cent this year – and the increased debt of recent years.

Russia's exports are dominated by oil, natural gas and other raw materials, which makes it sensitive to falling commodity prices. The global economic downturn may put increased pressure on the oil price, which currently swings between USD 50 and USD 60 per barrel. However, the 15 September attack on Saudi Arabia's oil facilities, which temporarily knocked out 5 per cent of world production, may change the playing field and lead to significantly higher oil prices going forward. According to its own information, the Russian state finances are balanced at an oil price of USD 50 per barrel. For 2019, GDP growth is expected to fall to 0.9 per cent, down from 2.3 per cent last year.

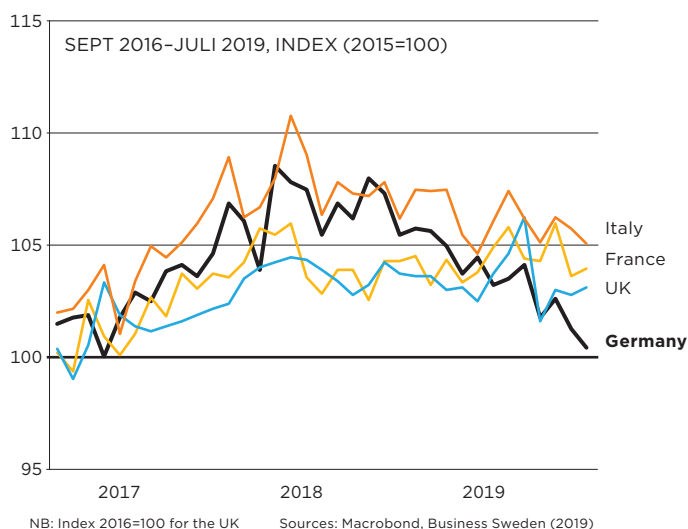
DIVERSE PICTURE IN THE NORTH

The development of the Nordic countries' economies over the next few years is expected to take different directions. Growth in the Swedish economy is expected to decline to 1.6 per

PURCHASING MANAGERS' INDEX (PMI), MANUFACTURING



INDUSTRIAL PRODUCTION (MANUFACTURING)



cent this year, from 2.5 per cent in 2018 (see also the section on the Swedish economy). Growth in Finland is also slowing down, but the decline is offset by increased public consumption and a relatively good export trend. In Denmark on the other hand, growth is expected to increase somewhat, supported by a boost to industrial production and an increase in net exports. In Norway, GDP growth is softening in 2019 despite a broad increase in domestic demand. Private consumption is expected to increase less this year than last year at the same time as imports are rising. More than 10 per cent of Sweden's goods exports go to Norway, so a clear increase in Norwegian imports can be expected to benefit Swedish export companies.

SOFTENING OUTLOOK

In most of the Asian economies that are important for Swedish exports, there is a clear slowdown in growth in 2019, compared with 2018. One exception is Japan, which is growing at the same rate this year as in 2018. The entire region is adversely affected by the ongoing US-China trade conflict. Japan and South Korea are also adversely affected by their own growing conflict, which, among other things, jeopardizes the supply of materials to the South Korean electronics giants. The conflict also adversely affects the Japanese tourism industry.

Growth in the Chinese economy is slowing down further this year and next year. However, reduced cash requirements for the banks and tax cuts are preventing an abrupt decline in Chinese growth. China's slower growth has a negative impact on other countries in the region through lower export growth. Especially small, open economies with large export dependencies such as South Korea, Singapore and Taiwan are affected, but also the export trend in larger countries such as Japan, Vietnam and Indonesia is now more subdued.

All in all, GDP growth in the region is expected to be lower this year compared to last year, 4.0 per cent compared to 4.8 per cent, and although the weakening of China's growth rate continues, growth for the region as a whole will increase slightly to 4.1 per cent in 2020 as India's economy is expected to grow at a faster pace next year. The fact that the US and China agreed in early September to resume negotiations is, of course, positive, and means that one cannot completely dismiss the possibility of a trade agreement eventually becoming a reality. But the risk of increased tensions between China and the US will probably continue to be considered somewhat more likely than the possibility of an easing of tensions.

THE GROWTH RATE IN CHINA CONTINUES TO SLOW DOWN

Last year, GDP growth in China slowed down and is expected to continue slowing in the coming years. The slowdown can probably be explained by temporary factors such as the ongoing trade war with the United States,

and by more structural factors such as the transition to more consumer-driven, rather than investment-driven growth. For the full year 2018, GDP growth was 6.6 per cent, which is in line with the official growth target of around 6.5 per cent for 2018.

The rate of development in industrial production (in relation to the manufacturing industry) has fallen sharply since the beginning of the year. Exports have developed poorly according to the latest quarterly results. The weak export trend is explained by weaker growth in global trade and the escalating trade conflict with the US. Domestic demand was also dampened by weak sentiment, lower credit growth and reduced activity in the property market. As a result of lower growth in world trade, export development is weaker this year, while domestic demand is growing at a slower pace.

Decreased growth in activity in the Chinese economy has resulted in increased financial and monetary stimulus. The stimulus measures will continue this year and include, in addition to reduced cash requirements for the banks, tax cuts aimed primarily at Chinese businesses but which are nevertheless judged to be relatively restrained from a historical perspective. The incentives are aimed at trying to stop, or at

EXPORTS AS SHARE OF GDP, % 2017

Singapore	171
Vietnam	102
Thailand	68
Taiwan	65
Malaysia	70
Philippines	31
South Korea	41
China	20
Indonesia	20
Australia	21
India	19
Japan	18

Sources: Oxford Economics, Business Sweden (2019)

NB: The reason certain countries have an export share that exceeds 100 per cent of GDP is due to high import figures. Imports affect GDP negatively.

least suppress, the slowdown in the growth rate rather than trying to achieve a clear rise in GDP growth.

In the coming years, investments are expected to grow more slowly as a result of lower activity in the property market. Consumption growth is expected to be somewhat lower, but is expected to continue to be the growth engine of the economy and support the expansion of the service sector. The rebalancing of the Chinese economy continues with the aim of increasing consumption's contribution to growth. This year, growth is expected to be 6.1 per cent, which is in line with the official target of 6.0–6.5 per cent for 2019. Next year, the growth rate will drop to 5.7 per cent.

The risks for China's growth are exclusively on the downside. Increased trade conflicts with the US dominates. The risks in the Chinese domestic market are significant. An imminent risk is the enormous debt accumulation, especially the total private debt, which amounts to over 200 per cent of GDP. The extent of private indebtedness means that, for example, a price collapse in the Chinese real estate and/or housing market is most likely to result in a significantly slower growth rate in the Chinese economy and also have global spread effects.

In the longer term, growth is dependent on continued supply-side reforms, for example within state-owned companies and the financial sector, while high quality urbanisation in the form of increased access to public services must be ensured.

EXTERNAL HEADWINDS FOR JAPAN'S ECONOMY

The Japanese economy is characterized by continued decent growth in domestic demand but weaker exports. This year, consumption is benefitting from the relatively strong labour market, at the same time as investments are increasing as companies continue to expand their capacity and spend more resources on research and development, which can benefit Swedish companies. The strong labour market also creates incentives for investment in labour-saving technology, an effective method for meeting the demographic challenges facing Japan with a sharply declining working-age population.

This year, domestic demand is supporting growth, while export growth – due to weaker regional demand – especially from China and global trade tensions – will be low. China is Japan's most important export market and accounts for about 20 per cent of Japanese exports. A lower import demand from

China significantly dampens Japanese exports. Increased protectionism and a slower-than-expected slowdown in the global economy risk further suppression of exports. Industrial production fell year-on-year in Q2. Weak demand from the rest of the world and increased trade war-related global uncertainty indicate a fairly restrained development of industrial production during the remainder of the year. A continued low PMI – it has remained at a low level since February (49.3 in August) – does not provide any reason to hope for an imminent turnaround.

Trade conflicts have also flared up recently with South Korea which is dampening the general mood. Disputes became more pronounced in mid-July of this year when Japan imposed restrictions on exports to South Korea. These restrictions applied primarily to chemicals and components that are vital for technology giants such as Samsung and LG (the components are used, for example, to manufacture screens for smartphones and laptop computers). This conflict has also affected other exports as well as the tourism sector as South Korean consumers have chosen to boycott Japanese products and to cut back on taking holidays in Japan.

GDP is expected to grow at 0.8 per cent in 2019, an unchanged rate compared with 2018. In 2020, the Japanese economy is expected to lose momentum and grow by only 0.2 per cent. The weak growth rate is largely explained by the planned VAT increase of two percentage points to 10 per cent in the fourth quarter of 2019. However, compared to previous VAT increases, the effects are relatively small and are counteracted by expansionary elements in the economy, for example, measures to stimulate consumption, but also the extension of free childcare and education.

Inflationary pressure is very weak and inflation is expected to fall well below the 2 per cent target. This year inflation is expected to be 0.8 per cent and 1.1 per cent next year. The low inflationary pressure – which is largely due to upcoming lower costs for mobile phones and education, lower energy prices and relatively low resource utilization – does not cause any change in the view of the central bank, which in all likelihood will retain the negative policy rate of 0.10 per cent at the same time as its massive bond purchases in order to keep the 10-year government bond rate close to zero.

SLOW DEVELOPMENT IN THE INDIAN MANUFACTURING INDUSTRY

Growth in the Indian economy has accelerated rapidly in recent years. The growth rate

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**THE RISKS
FOR CHINA'S
GROWTH ARE
EXCLUSIVELY
ON THE
DOWNSIDE**

increased to 7.4 per cent in 2018, from 6.9 per cent in 2017. Strong investment and public consumption development was behind the strong growth result in 2018. However, the strong full-year figures obscure the fact that India's economy has grown at a slower pace for each additional quarter since Q1, 2018. According to the latest results (Q2, 2019), India's economy grew more slowly than in the last six years. Among other things, weak developments in the manufacturing industry are a burden and can be expected to continue to burden GDP development for some time to come. The situation regarding Indian households has not improved significantly during the strong GDP growth of the past few years, partly because the strong growth figures have in principle not generated any new jobs. More analysts and economists have pointed to the large stock of bad loans, which are hampering the banks' ability to lend more money, as a major reason for the declining GDP growth figures. In addition, a number of scandals have affected the banking sector and greatly weakened confidence, which also restricts the banks' room for manoeuvre.

Prime Minister Narendra Modi's government has announced a number of measures to counter the slowdown in the economy. Among these can be mentioned the measures to support the crisis in the automotive industry, and plans to merge small, publicly owned banks into a smaller number of large banks, thereby restoring confidence. It has also been decided to withdraw a planned tax increase on capital gains from financial assets. According to several analysts, further fiscal policy measures are needed to counter the fall in GDP growth.

India's central bank, RBI, has lowered its policy rate on four occasions this year by a total of 110 points, to 5.4 per cent, the lowest policy rate in almost a decade and more cuts are expected. But the banks have been slow in reducing their interest rates to a corresponding degree, which has meant that the effect for households and companies of RBI's policy rate cuts has largely been absent.

There is continued political pressure on fiscal stimulus and, probably this year and next, GDP growth will benefit from further fiscal stimulus. Low inflation also leaves room for an even more expansionary monetary policy, but the effects will probably be hampered in the future as well by the fact that the banks do not adjust their interest rates accordingly.

GOOD DOMESTIC DEMAND IN THE REST OF ASIA

Lower demand from China and the risk of

escalating trade conflicts affected the rest of Asia at the end of 2018. The spread effects of weaker growth in China, as well as the effects and risk of escalating trade conflicts remain in 2019, but are not expected to result in any substantial economic downturn.

Economic growth in the region remains good, but is slowing down in most of the countries in the region both this year and next year. The lower growth rate is mainly due to lower import demand from China and increased protectionism, which suppresses export development. Particularly small, open economies with a large export share such as South Korea, Singapore and Taiwan are affected. Export growth in these economies is also suppressed by lower global demand for electronic goods, which are important export goods in the aforementioned countries.

Growth in the region is supported by relatively resilient domestic demand, investment in infrastructure and accommodating economic policies. The risks to the countries in the region are dependent on both domestic and external factors. A common downside risk for all countries is a faster slowdown than expected in China and/or escalated trade conflicts between China and the US. China is a major export market for the region and more than half of Chinese imports come from other Asian countries. If the growth rate in China decreases more than expected, growth in the entire region will be adversely affected.

Several Asian countries are also characterised by domestic imbalances which should be noted. Debt has increased as a result of strong growth and low interest rates. Household debt levels are high in countries such as South Korea and Malaysia, 99 and 83 per cent of GDP respectively. The high indebtedness increases sensitivity to interest rate hikes and risks pushing away other expenses such as private consumption. In Japan, public debt has reached the astounding level of 237 per cent of GDP. Although it has now levelled off, the debt level is expected to increase somewhat in 2019, even as a share of GDP. Debt levels among non-financial enterprises in China have risen sharply over the past decade and are approaching 160 per cent of GDP. Overall public debt is still at a manageable level but is growing at an alarming rate. According to the IMF forecast (April 2019), it is expected to reach around 70 per cent of GDP by 2024.

STRONG WITH TROUBLING SIGNS

Although it has been almost two years since the presidential election, Donald Trump manages to surprise political and economic analysts with new gambits almost daily. What just a few years ago had been regarded as an abuse of power by a president is nowadays almost seen as the norm. The President's repeated twitter attacks on Federal Reserve Chairman Jerome Powell for failing to lower the policy rate illustrates how prevailing economic policy norms are being dissolved.

However, the President enjoys continued strong support in business, not least among SMEs. The unlocking of the regulations governing the financial markets and the dismantling of environmental protection are popular measures among companies, as are the tax cuts that have been implemented. Admittedly, the escalation of the trade war with China is worrying much of US business and agriculture, but it still has significant political backing.

A new front in the US trade conflicts may also be opened following a ruling by the WTO's dispute settlement mechanism that will be released by end of September. According to news reports, the ruling allows the US the right to impose penalties on European products as compensation for many years of unauthorized state aid provided by European countries to aircraft manufacturer Airbus. The United States has produced a list of products that may be subject to penalties of up to USD 11 billion. Similarly, the EU has produced a list of USD 20 billion of imported US goods that may be subject to penalties if the WTO decides, in a parallel, ongoing case, that the United States has unlawfully granted federal aid to aircraft manufacturer Boeing.

In addition to national politics, the United States has for the past month been the playing field for three events that signal changing conditions for the economy and business, with the potential for global impact. On 19 August, the influential Business Roundtable announced that its 200 members, CEOs of leading US companies, have abandoned the view that only shareholder value should guide business operations. In a break with 50 years of orthodoxy, the

message is that companies should also invest in their employees, protect the environment and display a good business ethic towards their suppliers.

On 10 September, 48 US states launched an investigation into whether the search engine company Google is abusing its monopoly position, which could eventually lead to the company breaking up. At the same time, a number of states launched a competition investigation on Facebook. Federal authorities are also investigating Google and Facebook for possible abuse of a monopoly position.

On the same day, a proposal was approved by the California State Congress, which stipulates that contract employees should in many respects be considered employees, which is a severe blow to employers in the so-called gig economy. Transport companies such as Uber and Lyft oppose the proposal. Several states in the US will now review their legislation in this area.

US-Canada relations have thawed again after a conflict at the G7 summit last summer between Trump and Prime Minister Justin Trudeau. In May, the United States removed the penalty tariffs on steel and aluminum from Canada and Mexico. However, the new North American Trade Agreement – United States – Mexico – Canada – Agreement (USMCA) – has so far been ratified only by Mexico. The agreement has encountered resistance in the US Congress, where Democrats have demanded tougher wording on, among other things, environmental protection and working conditions. North America's growth was 2.8 per cent last year. For 2019 the growth rate is expected to



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Statement from the American CEO organisation Business Roundtable, August 19

slow to 2.1 per cent and drop further to 1.6 per cent by 2020.

SLOWDOWN ALSO IN THE US

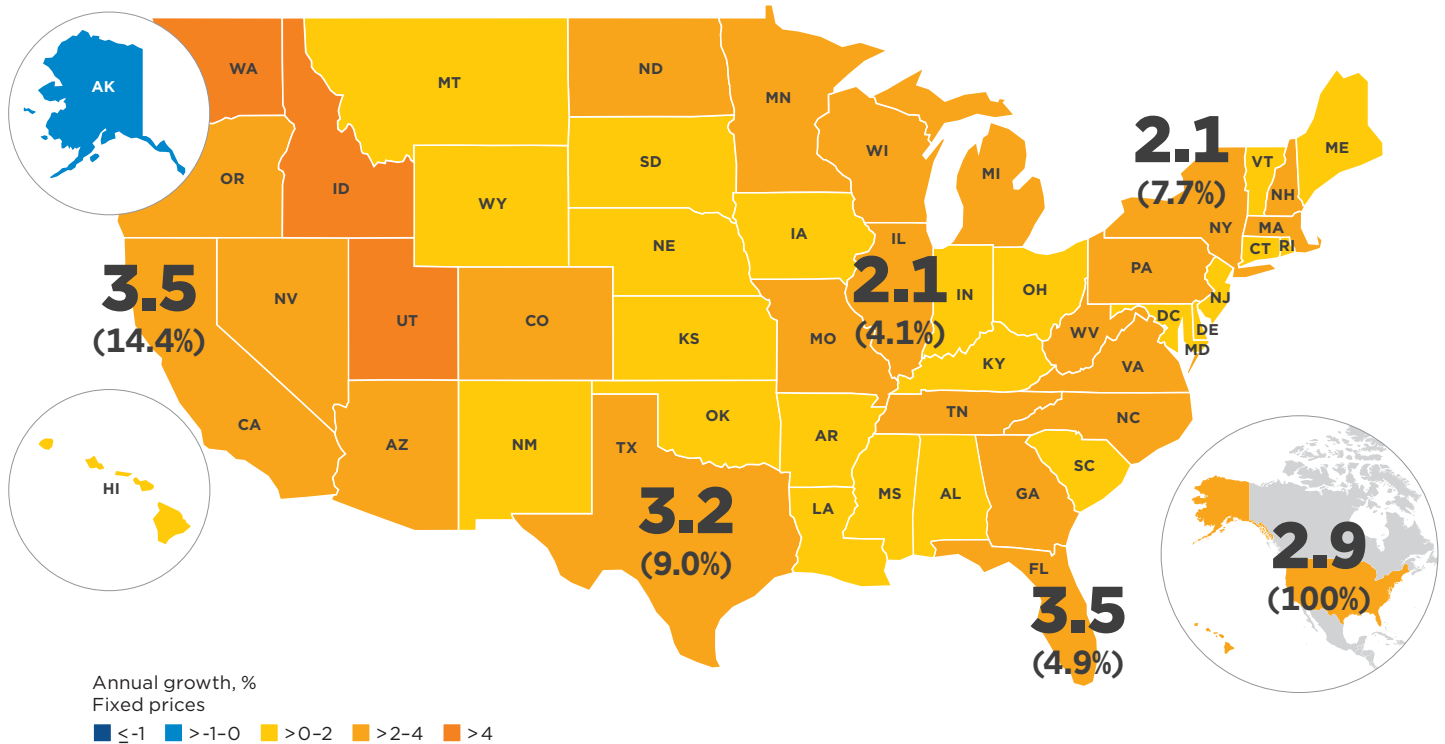
After a long period of uninterrupted growth, the US economy is showing signs of slowing down. Industrial production is developing poorly and exports are stagnating. The rate of investment is also on the decline. The effects of the big tax cut in the Tax Cuts and Jobs Act have waned. However, household consumption remains solid, supported by reduced inflation, rising wages and a strong labour market. In principle, there is full employment and unemployment has fallen to 3.7 per cent. Nevertheless, the escalating trade conflict with China has started to have noticeably negative effects in certain industries and state economies, mainly in the agricultural sector. In July, the Trump administration decided to provide US USD 16 billion in federal aid to compensate for non-export of soybeans, pork and nuts to China. The penalty tariff of 15 per cent on USD 125 billion imports from China introduced on 1 September will mainly affect consumer goods. A final round of penalty tariffs on the remaining USD 175 billion of imports from China has

been postponed until 15 December so as not to interfere with US consumers' large purchases before school starts and the holidays.

At the July meeting, the US Federal Reserve, the Fed, decided to lower the policy rate by 0.25 per cent in the interval of 2.00–2.25 per cent, the first reduction since 2008. The reason for this decision was deteriorating growth prospects for the world economy, the trade war with China and stubbornly low inflation. In September, the policy rate was lowered by a further 25 points to the interval of 1.75–2.00. The Fed's reason for the cut was that there are risks that could change the current positive perception of the US economy.

US GDP increased by 2.9 per cent in 2018. This year, growth is expected to decline to 2.2 per cent and fall further to 1.6 per cent in 2020. From the growth figures broken down at the state level it is evident that growth was strong 2018 across virtually the entire United States. Figures for the first quarter of 2019 show continued high growth figures with a noticeable slowdown in the West Coast states. Scattered news reports and company bulletins indicate a rising number of layoffs in the manufacturing industry and also in retail.

GDP GROWTH 2018



Note: The map shows GDP growth in the five economically most important states - California, Texas, New York, Florida and Illinois - with their respective shares of total US GDP in brackets. All figures stated in percent.

Sources: Bureau of Economic Analysis (BEA), Business Sweden (2019)

SOUTH AMERICA

The latest figures for Brazil's economy provide a mixed picture, with no real strengths. Private consumption is developing poorly. Unemployment remains high and shows no sign of falling significantly. Industrial production is falling while the pace of investment is surprisingly buoyant. The export outlook is relatively bright for 2019. However, President Bolsonaro's verbal attacks on European countries such as Germany, France and Norway and the international criticism of the fires in the Amazon, risk destroying the recently concluded free trade agreement between the EU and Mercosur, where Brazil is the leading member.

The budget deficit is also expected to remain massive around 7 per cent and central government debt is increasing. Brazil's economy is expected to grow by 0.8 per cent in 2019 and then rise to 1.7 per cent next year.

Among the other South American countries, Argentina and Venezuela are in recession. The forecast for 2019 is zero growth for South America overall followed by 1.3 per cent growth in 2020.

Particularly noteworthy among analysts is the fact that the yield on US 10-year government bonds is now lower than for three-month Treasury bills – a so-called inverted interest rate curve – which has historically been an indicator of an imminent recession. According to the consulting firm Oxford Economics, the yield curve has been inverted six times since 1974, and in all cases this has been followed by a global recession with an average of a one year lag. However, there is uncertainty about if, and to what extent, the low interest rate policy of the last decade has affected the reliability of the inverted interest rate curve as an indicator.

GLOOMIER IN THE NORTH AND SOUTH

The economy is also slowing down in the rest of North America, where Mexico and Canada, in 2019, took over as America's largest trading partners with China relegated to third place.

The growth rate is declining in the Canadian economy. Industrial production is stagnating and investments are in decline. However, the slowdown in private consumption is not yet clear. Household purchasing power is supported by wage increases, an inflation that has stabilised around 2 per cent and a continued robust labour market. Employment is declining marginally, but unemployment remains at a record low of 5.7 per cent. The important energy sector is going strong, which resulted in a strong boost for exports in the second quarter of 2019. The economy grew by 1.9 per cent last year, and the rate is expected to fall to 1.4 per cent in 2019 and 1.2 per cent in 2020.

Mexico is near recession, but the forecast is for 0.4 per cent growth this year and 1.3 per cent next year. Industrial production and investments are falling at the same time as exports are developing very weakly. The government's sharp reduction in public spending from the turn of the year has contributed to the decline. Private consumption has been restrained by stubbornly high inflation and high interest rates. Against the backdrop of a looming recession, the government presented a stimulus package of USD 25 billion in July to lift the economy.

TIMELINE AND CURRENT SITUATION IN THE US-CHINA TRADE WAR

Since the beginning of 2018, the United States and China have in several steps imposed penalty tariffs on all imports of goods from the other party, with some exceptions. This means that the United States has imposed sanctions on imports of Chinese goods for a total of USD 550 billion, in three stages of USD 50, 200 and 300 billion respectively, of which USD 175 billion will take effect from 15 December, 2019.

China has responded by introducing penalty tariffs on imports of US goods for a total of USD 185 billion, in three stages of USD 50, 60 and 75 billion, respectively, of which the last round of USD 75 billion will take effect from 15 December, 2019. Between November 2018 and March 2019, negotiations were ongoing between the parties, but these ended in disagreement. New negotiations will begin in October 2019.

2018

23 MARCH

The US introduces penalty tariffs on steel (25 per cent) and aluminum (10 per cent), including Chinese products.

2 APRIL

China imposes penalty tariffs (varying percentage) on imports of US goods of USD 3 billion, in retaliation for US penalty tariffs on steel and aluminum.

6 JULY

The US imposes a 25 per cent penalty tariff on Chinese goods imports of USD 34 billion. China responds with a 25 per cent penalty tariff on USD 34 billion of goods (including agricultural products and passenger cars).

23 AUGUST

The US imposes a 25 per cent penalty tariff on imports of Chinese goods worth another USD 16 billion (including circuit boards, chemicals and plastics). China responds with 25 per cent penalty tariffs on US goods of an additional USD 16 billion (including coal, fuel and medical equipment).

24 SEPTEMBER

The US imposes a 10 per cent penalty tariff on Chinese goods imports of another USD 200 billion (including consumer goods, chemicals, textiles, tools, foodstuffs and agricultural products and vehicle parts). China responds with a 5-10 per cent penalty tariff on US goods of an additional USD 60 billion (including agricultural products, chemicals, textiles and machinery).

2019

10 MAY

The US raises penalty tariffs on USD 200 billion imports of Chinese goods to 25 per cent.

1 JUNE

China responds by raising penalty tariffs (to 10-25 per cent) for USD 60 billion imports of US goods.

1 SEPTEMBER

The US imposes a 15 per cent penalty tariff on another USD 125 billion of Chinese goods imports, from Trump's promised penalty tariff on the remainder, approximately USD 300 billion of imports (a large portion of which is consumer goods, such as consumer electronics and shoes) from China. China responds with penalty tariffs (varying percentage) on USD 75 billion worth of imports of US goods, including a 5 per cent penalty tariff on US crude oil.

15 OCTOBER

The US plans to raise the penalty tariff for USD 250 billion of imports of Chinese goods from 25 to 30 per cent. The original date was set for 1 October, but Trump announced in a tweet on 11 September that the date is being moved forward as a goodwill gesture to China ahead of upcoming negotiations.

15 DECEMBER

The US plans to impose a 10 per cent penalty tariff on the remaining USD 175 billion of imports of Chinese goods. China plans to impose penalties (varying percentage) on the remainder of USD 75 billion imports of US goods.

APPENDIX

SWEDISH EXPORTS, GDP GROWTH AND INFLATION

Country/Region	Swedish goods exports, current prices			GDP growth, fixed prices, %			Inflation, %
	Exports 2018 Bn SEK	Change 2017-2018,%	Share of Swedish exports 2018,%	2018	2019F	2020F	2018
EUROPA							
Sweden				2.5	1.6	1.4	2.0
Denmark	99.9	11.6	6.9	1.5	1.9	1.4	0.8
Estonia	12.3	12.0	0.9	4.8	3.5	2.7	3.4
Finland	100.8	11.6	7.0	1.7	1.3	1.1	1.1
France	62.1	13.3	4.3	1.7	1.3	1.3	1.9
The Netherlands	84.7	19.0	5.9	2.5	1.7	1.2	1.7
Italy	40.3	14.5	2.8	0.7	0.1	0.4	1.1
Latvia	4.7	29.5	0.3	5.0	3.0	3.2	2.5
Lithuania	9.8	17.9	0.7	3.5	3.3	2.5	2.7
Norway	151.6	13.8	10.5	1.6	1.3	2.0	2.8
Poland	48.2	21.1	3.3	5.2	4.0	3.1	1.8
Russia	20.0	6.7	1.4	2.3	0.9	1.6	2.9
The United Kingdom	81.8	0.9	5.7	1.4	1.2	1.1	2.5
Czech Republic	12.3	11.9	0.9	2.9	2.6	1.9	2.2
Germany	156.9	10.5	10.9	1.5	0.6	0.8	1.7
Spain	30.0	19.3	2.1	2.6	2.3	1.8	1.7
AMERICAS							
USA	98.0	8.9	6.8	2.9	2.2	1.6	2.4
Brazil	8.0	8.6	0.6	1.1	0.8	1.7	3.7
Chile	3.5	27.8	0.2	4.0	2.5	2.5	2.3
Colombia	1.0	7.3	0.1	2.6	3.4	3.4	3.2
Canada	11.0	6.4	0.8	1.9	1.4	1.1	2.2
Mexico	6.3	-3.1	0.4	2.0	0.4	1.3	4.9
ASIA, OCEANIA							
Australia	17.4	15.5	1.2	2.7	1.8	2.3	1.9
India	12.6	10.2	0.9	7.4	5.6	6.8	4.0
Indonesia	4.2	5.1	0.3	5.2	5.0	4.9	3.2
Japan	22.2	13.5	1.5	0.8	0.8	0.2	1.0
China	67.1	14.7	4.7	6.6	6.1	5.7	2.1
Malaysia	2.9	8.3	0.2	4.7	4.4	4.0	1.0
South Korea	14.4	17.4	1.0	2.7	1.9	2.0	1.5
Thailand	4.1	-8.0	0.3	4.1	2.9	3.0	1.1
Vietnam	1.7	-16.7	0.1	7.1	6.7	6.3	3.5
MIDDLE EAST, TURKEY AND AFRICA							
United Arab Emirates	5.4	-14.7	0.4	1.7	2.2	2.2	3.5
Saudi Arabia	8.0	-12.5	0.6	2.4	0.5	1.9	3.1
South Africa	7.7	5.0	0.5	0.8	0.3	0.9	4.6
Turkey	14.3	1.6	1.0	2.8	0.1	2.8	16.2

Sources: Statistics Sweden, Oxford Economics, Business Sweden (2019)



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