BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

A BUMPY RIDE AHEAD

GLOBAL ECONOMIC OUTLOOK
September 2021

Executive summary

THE PANDEMIC IS NOT OVER

The global economy is well on its way toward recovery and the gap between the industrial sector and the services sector is narrowing as restrictions are eased. But the pandemic is not over and vaccination coverage varies considerably between different countries. Some regions are still struggling to gain control over the rapid spread of the Delta variant of the virus, not least in Asia where vaccination coverage is low. This has forced countries to impose tight restrictions and local shutdowns with ramifications that not only dampen Asia's growth, but which also spill over onto the global economy.

The manufacturing sector is going full steam ahead with a high level of capacity utilisation, but industry is also struggling with problems such as labour shortage and scarcity of intermediate goods, as well as disruptions in container and freight shipping. How long this situation will persist remains an open question, but it is likely that the challenges will remain until the end of the year, at the very least, and more likely into next year. Given this context, a somewhat larger but relevant question is if the freight crisis could pose a long-term threat to international trade and the global economy.

More and more economies are recovering as the pandemic gradually fades and most countries are expected to recapture pre-crisis GDP levels next year. But several risks and uncertainties along the way are likely to cause an uneven and stumbled recovery. In the short term, these risks are primarily linked to increased rates of infection, challenging virus strains and slow vaccination processes. Nonetheless, the risks associated with inflation, shortage of intermediate goods and freight problems continue to be imminent. In the longer perspective, the return of geopolitics and the accelerating technology race between the two superpowers, the US and China, will clearly be of concern.

It is now high time for governments and central banks to scale back their crisis support measures introduced during the pandemic. Crisis politics have largely been successful, but only time will tell if politicians and decision makers will succeed in ramping up their focus on critical, long-term investments in infrastructure, climate change mitigation and digitalisation. Here and now, we can conclude that the coronavirus crisis is not yet over. The best option is to prepare for a bumpy ride ahead.

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THE GLOBAL ECONOMY

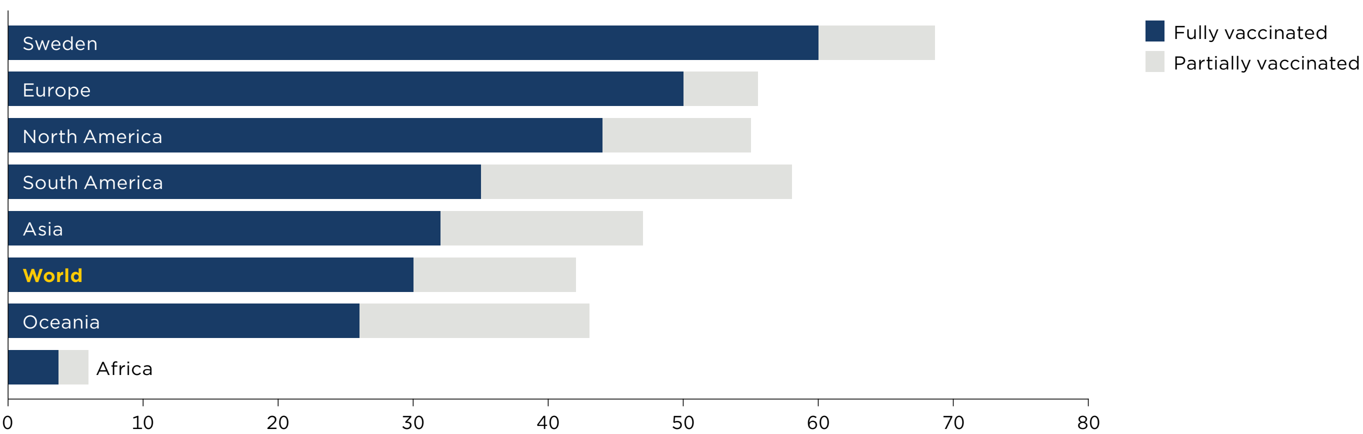
The world is recovering relatively well from the pandemic and in many economies GDP is already back at pre-crisis levels. At the same time, the global recovery is uneven and there is a continued, albeit narrowing, gap between the industrial sector and the services sector. North America and Asia, with the exception of the Southeast Asian economies, are well ahead in the recovery cycle. Capacity utilisation in global manufacturing is currently high and labour shortage has become an increasingly pronounced challenge. The Delta variant is spreading rapidly in many parts of the world, not least in Southeast Asia, where vaccination coverage is low. High demand combined with the fact that the pandemic is still causing local shutdowns of factories and ports have led to a global shortage of intermediate goods and delayed deliveries. The pandemic continues to pose considerable risks in the forecast, particularly as many small and less developed countries have limited access to vaccines. In all, global GDP is expected to grow by 6.0 per cent this year and 4.8 per cent in 2022 following drop of 3.4 per cent last year.

UNEVEN GLOBAL RECOVERY

The economic recovery has continued around the world in recent months despite an increased spread of infections. Most of the developed economies have progressed far in their vaccination programmes where a majority of the populations are now fully vaccinated against the virus. As a result, hospitals have not been overrun with patients and the large shutdowns of society seen earlier in the pandemic have been avoided. The resilience demonstrated by economies during the latest rise in infections has reinforced confidence among households and businesses. In parts of the world that have suffered a surge of infections and where vaccination coverage is low, such as Southeast Asia, governments have been forced to tighten up restrictions which, in turn, has had a negative impact on consumption and tourism. This has led to temporarily dampened growth in these countries. The shutdown of factories and port terminals in Asia, primarily China which has a zero-tolerance policy toward infection spread, has caused problems in global production and transport logistics. The spread of infections remains a substantial risk factor in the global economic recovery, especially in less developed economies where vaccination coverage is low.

Following a weak start to the year, the global economy regained strength during the spring and summer when more economies gradually

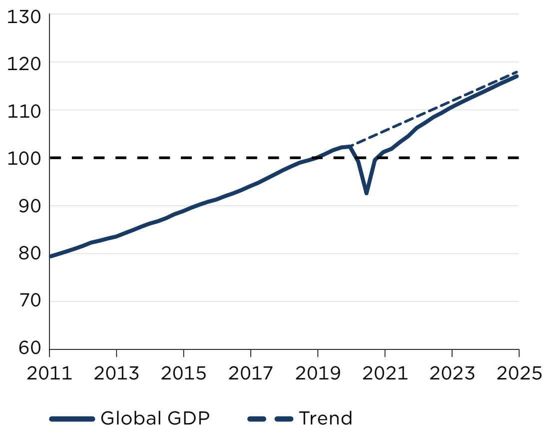
VARYING VULNERABILITY TO THE CORONAVIRUS
Vaccination rate, per cent of total population



Source: Our World in Data (14 September 2021)

PERMANENT LOSS IN GLOBAL ECONOMY

Global GDP, constant prices, index 2019 Q4 = 100



Note: The trend is outlined according to average quarterly growth 2015–2019

Sources: Oxford Economics and Business Sweden

opened up. GDP in many countries will be back at pre-crisis levels already this year and most countries, more or less, are expected to bounce back to 2019 GDP levels next year. It is mainly parts of Europe, Southeast Asia and several countries in South America where the recovery of lost production will be delayed until late 2022. Although global GDP is expected to return to its pre-crisis level in 2022, it will take a long time – if ever – before economies fully make up for the lost growth during the pandemic. The indications today, according to our calculations, are that the global economy suffered a permanent 1 per cent loss of GDP. The greatest losses can be seen in the emerging economies. Uneven vaccination coverage and diverging economic stimulance measures have led to a two-speed recovery where developed economies are in the lead while emerging economies lag behind. The low vaccination coverage in these countries means that their economies are more vulnerable to new virus outbreaks, while the short-term outlook is more stable in countries with high vaccination coverage.

NARROWING GAP BETWEEN INDUSTRY AND SERVICES

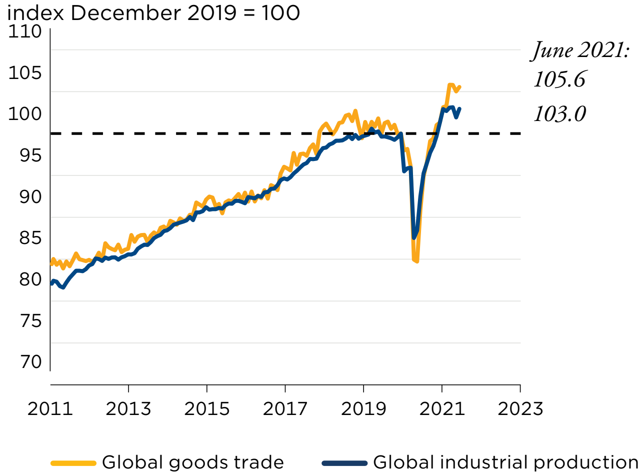
Global industrial production and world trade made a rapid recovery following the outbreak of the pandemic. Production and goods trade returned to pre-crisis levels in November 2020, largely driven by China's economy where industrial production recovered already in August 2020. The gap between the industrial sector and services sector is an expected consequence of the fact that services requiring human interaction were crippled by the restrictions, whereby consumption shifted to goods. As the global economy now enters a new recovery phase with higher vaccination coverage and eased restrictions, the services sector is growing stronger and regaining lost ground. Industrial production is going full steam ahead with a high level of capacity utilisation. However, the sector is facing issues related to labour shortage, shortage of intermediate goods and disruption to container and freight shipping, which causes delayed deliveries and dampens growth. The gap between the two sectors will gradually narrow as the pandemic fades.

CLEAR UPSWING IN EUROPE

Following a weak initial development, growth picked up in the European economy late in the spring when restrictions were eased in many countries. The recovery is progressing well but the region will not have recovered its production losses from the pandemic until 2022. At the same time, the pace of recovery differs greatly between Europe's nations. The Nordic and Eastern European economies have fared considerably better during the pandemic than most other European countries and are already back at pre-crisis levels. Major industrial economies such as Germany, France and Italy benefit from their export-oriented production but are now hampered by the freight crisis and shortage of intermediate goods. Growth is now accelerating in countries where the services sector dominates, such as the UK and Spain, where restrictions have eased, but the slow rebound for tourism continues to weigh on Southern Europe. Growth in Europe as a whole continues to be underpinned by the recovery package Next Generation EU, far-ranging national crisis- and stimulus measures as well as a continued expansionary monetary policy. The ECB took the decision in September to reduce the purchasing rate in the Pandemic Emergency Purchase Programme (PEPP) for this year's fourth quarter, while leaving the key interest rate unchanged at zero per cent. An interest rate rise will probably not be expected until late 2023.

SUPPLY DISRUPTION SLOWS INDUSTRY

Trade and industrial production by volume, index December 2019 = 100



Sources: CPB World Trade Monitor and Business Sweden

US GROWTH HAS PEAKED

In the United States, public stimulus and rescue packages corresponding to around 25 per cent of US GDP during 2020-2021 have contributed to rapid economic recovery with positive spill-over effects for the rest of the world. The growth peak has been reached and the stimulus-driven consumption surge is over, but the economy will continue to develop strongly going forward. The labour market has not yet made a full recovery and many people are still out of work. At the same time, signs of overheating are evident as labour shortages have become a fact. The US economy is now entering a calmer period of growth with smaller contributions from fiscal policy, but will nevertheless grow faster than normal next year, as well. Monetary policy will be tightened somewhat towards the end of the year as we expect the Federal Reserve to begin to phase out bond purchases this autumn. But a decision to increase the key interest rate will be held off until next year at the earliest, and will probably not be taken until early 2023.

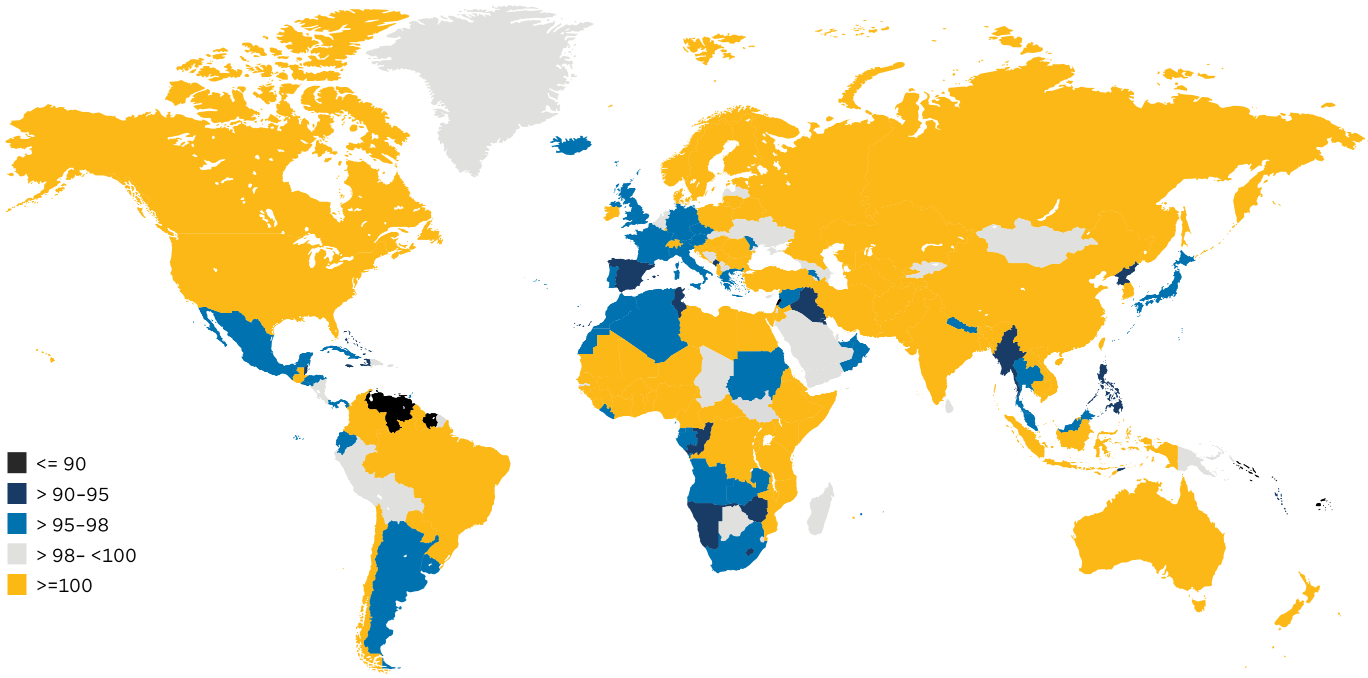
GROWTH IN ASIA DAMPENS TEMPORARILY

The recovery in large parts of Asia has been delayed following the rapid spread of the Delta variant of coronavirus and the ensuing restrictions. This applies particularly to markets in Southeast Asia which were hard hit by rising infections during the spring and summer months and where extensive shutdowns and strict quarantine rules have been introduced. The Chinese authorities' low tolerance for community spread of the virus has dampened domestic growth and local shutdowns are causing problems as production has stopped and ports closed, with effects spilling over into global supply chains. Markets such as Taiwan and South Korea still benefit from high global demand for semiconductors and strong export growth. Tighter restrictions in several Asian economies coupled with slower growth in China during the first half of the year are expected to hold back the region's GDP growth this year. The recovery will pick up speed next year as more and more people are vaccinated and as the economies open up.

SWEDEN'S ECONOMY THRIVES

The Swedish economy continued its strong recovery in the second quarter this year and GDP is now back at pre-crisis level. Industrial production and exports continue to be the growth locomotive while the services sector lags behind, burdened by restrictions. About half of the population is now fully vaccinated and on 29 September the fourth step (out of a total of five steps) of the government's phase-out plan will be taken, meaning that most restrictions will be removed. This contributes to rising employment and increased consumption. Confidence indicators such as the Purchasing Managers' Index point to strong growth for the rest of the year and resource utilisation in the economy continues to rise to a high level. Continued strong global demand for goods benefits Swedish exports, which are expected to grow rapidly over the next two years.

ECONOMIC RECOVERY RATE, GDP 2021 COMPARED TO 2019, CONSTANT PRICES, PER CENT



Sources: Oxford Economics, Business Sweden

A BUMPY RECOVERY LIES AHEAD

The rapid recovery in the world economy has led to problems that could have a negative impact on growth. Strong demand in the industrial sector has led to high resource utilisation and common issues such as skills supply have re-emerged, posing a risk to future growth. More and more companies around the world are reporting labour shortages. The number of job vacancies is at record high levels while many people are trying to enter the workforce – indicating matching problems in the labour market. At the same time, supply chains issues, problems in shipping and a shortage of intermediate goods have hampered production and led to price hikes that contribute to rising inflation. Rising world inflation is considered by most central banks to be a temporary challenge. Developments in the labour market will be of great importance for the inflation outlook. If the shortage of labour leads to increased wage pressures at the same time as inflation expectations rise, the situation could change with permanently higher inflation. This would most likely make central banks take action.

TIME TO PULL BACK MEASURES

Central banks around the world are preparing to discontinue crisis policies. The focus has largely been on the US Federal Reserve's planned decision to reduce asset purchases. At the monetary policy meeting held in September, the Chair of the Federal Reserve Jerome Powell signalled that the Fed will soon begin to reduce bond purchases, so-called "tapering", given that the recovery is going according to plan. There is now consensus among approximately half of the Fed members that the key interest rate should be raised already next year. However, the median of the Board votes does not indicate any increase until 2023. The European Central Bank (ECB) and the Riksbank (Sweden's central bank) kept the key interest rate at zero per cent in their most recent monetary policy meeting in September. The two central banks will probably leave the key interest rate at zero throughout 2023. Both the Riksbank and the ECB will continue to purchase assets, but at a slower pace, for the rest of the year. At its most recent meeting in September, the ECB decided to scale back the purchasing rate in its Pandemic Emergency Purchase Programme (PEPP) during this year's fourth quarter. We do not expect either the ECB or the Riksbank to reduce their level of holdings before the end of 2022.

Fiscal policy has been extremely expansionary during the pandemic. Massive stimulus packages have led to a sharp increase in public spending in many countries. The crisis measures have included furlough support, unemployment benefits, sick leave benefits and, in some cases, direct cash support. As economies recover and the need for crisis support decreases, the burden on public finances will also ease. A gradual normalisation of fiscal policy has already begun and the spotlight has shifted to more long-term investments in infrastructure, climate change mitigation and digitalisation. Despite continued fiscal policy initiatives such as Biden's infrastructure package and the European Commission's NGEU, fiscal policy contributions will be smaller in the coming years compared to the pandemic era.

RISKS TO THE ECONOMIC RECOVERY

The risks facing the global economy are primarily linked to increased spread of infections, resistant virus mutations and slow vaccination processes. A fragmented recovery in the world economy could give rise to widening income gaps. If the Fed makes a sharp turn towards tightened monetary policy, a rise in US interest rates could risk having a negative impact on financial systems and capital flows in several emerging economies. In addition, should the pandemic worsen, these economies risk substantial GDP loss and other long-term consequences. As more and more economies recover, new risks also arise, including more permanent inflation. In the near future, continued supply disruptions due to shortages of intermediate goods and freight problems may hamper production in many countries, which could hamper global growth. Further risks are linked to how and when governments and central banks choose to withdraw the crisis support introduced during the pandemic. If support measures are kept in place for too long, there could be economic overheating. At the same time, the measures should not be removed before economies can once again stand on their own two feet.

GLOBAL ECONOMIC RECOVERY WELL UNDER WAY

REGION	GDP growth, constant prices, %			Share of global GDP 2019, %
	2020	2021	2022	
Global*	**-3.4**	**6.0**	**4.8**	**100**
Sweden	-2.9	4.4	3.5	1
Asia and Oceania	-1.0	6.2	5.0	37
Europe	-6.1	5.1	4.6	25
North America	-3.8	6.1	4.7	28
South America	-6.9	6.5	3.1	4
Africa	-4.8	7.7	4.2	3
Middle East	-5.4	2.4	4.5	3

* GDP growth at purchasing power parity (PPP)

Sources: Oxford Economics, Business Sweden (2021)

SWEDEN'S ECONOMY AND EXPORTS

The Swedish economy has bounced back to its pre-crisis level with the industrial sector and exports as the engine of growth. Sweden's exports continue to benefit from the strong global recovery while the removal of restrictions contributes to increased private consumption. Confidence indicators such as the purchasing managers' index point to continued strong growth for the rest of the year and resource utilisation in the economy continues to approach high levels. In all, GDP is expected to grow by 4.4 per cent this year and 3.5 per cent in 2022.

A THRIVING SWEDISH ECONOMY

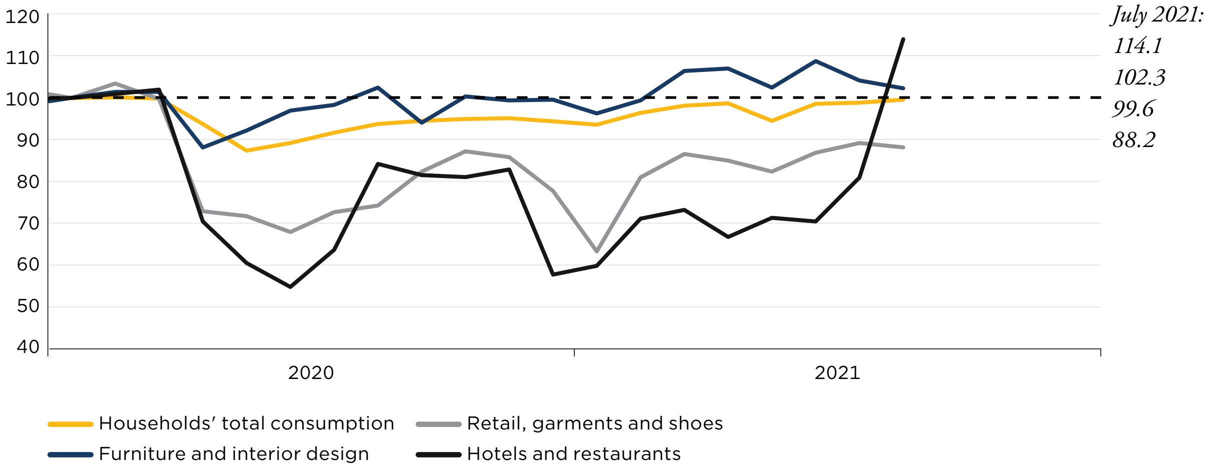
The Swedish economy continued to grow rapidly during the second quarter of this year, with investments making a particularly strong contribution, and GDP is now back at pre-crisis level. The industrial sector and exports are the engine of the recovery while the services sector has been burdened by restrictions. Around half of the Swedish population is now fully vaccinated and the government continues to lift restrictions according to a five-step plan. Step four of the decommissioning plan (in effect from 29 September) means that the limitation on the number of participants at public and private gatherings is phased out and the remaining restrictions on restaurants and hospitality services are removed. The Swedish Public Health Agency's advice on working from home ceases to apply and a gradual return to the workplace begins. Society is thereby beginning to return to normal, which contributes to rising employment and rapidly growing consumption.

The fact that society is opening up is reflected in household consumption, which grew sharply during the summer. According to Statistics Sweden's consumption indicator, total household consumption returned to pre-crisis levels in July and consumption in hotels and restaurants increased dramatically. In June, consumption in the hard-hit hotel and restaurant sector was still 20 per cent down from pre-pandemic levels but rose sharply in July – reaching 14 per cent higher than before the pandemic. Consumption by foreign tourists in Sweden also increased following the easing of restrictions and as travel picked up momentum again.

Employment has risen rapidly in recent months and indicators show that it will continue to rise at a fast pace. However, the labour market recovery differs in each industry, particularly in the hotel and restaurant sector which has approximately 10 per cent fewer employees today than before the crisis. The Swedish National Institute of Economic Research's business cycle barometer for August

UPSWING FOR THE HOTEL AND RESTAURANT SECTOR

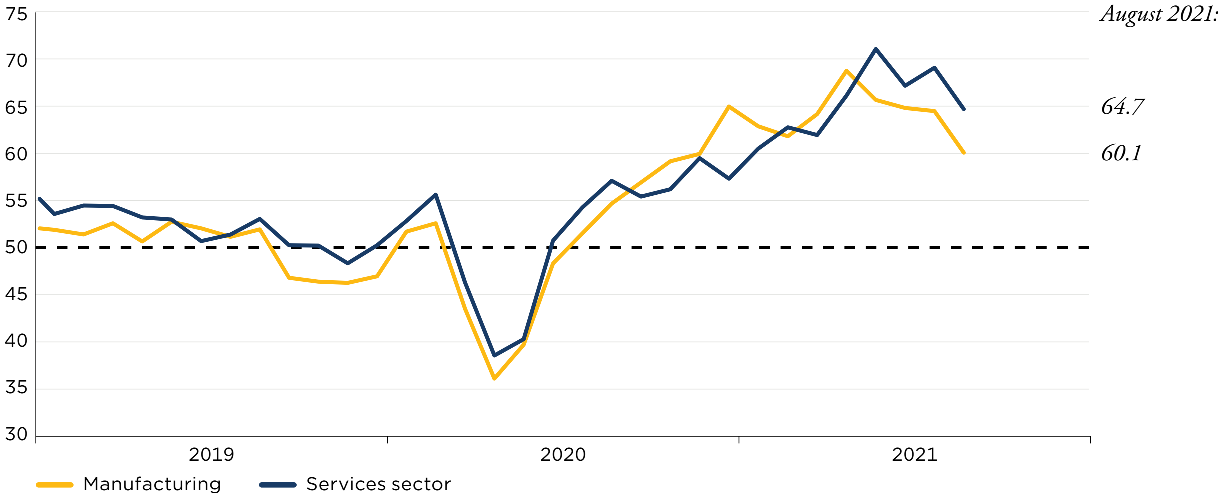
Household consumption indicator for selected sub-segments, index December 2019=100



Sources: Statistics Sweden and Business Sweden

PRIVATE SECTOR GOES FULL STEAM AHEAD

Purchasing managers' index in Sweden



Source: SILF/Swedbank

indicates that employment plans in many industries are higher than normal. According to statistics from the Swedish Public Employment Service, the number of newly registered job vacancies has hit a record level, while redundancies remain at low levels. Overall, this indicates strong employment growth in the future. However, more and more companies are reporting difficulties in recruiting for in-demand skills. Short-term wage statistics show that labour shortage has in many industries risen to high levels in recent months at the same time as wages have increased. In the first half of this year, wages increased by around 3 per cent. The outlook for the labour market is improving in line with rising demand, although some groups continue to face problems.

Industrial production recovered quickly after the sharp 17 per cent drop last year and is now at a higher level than before the crisis. Sweden's industrial sector continues to be strengthened by the increasingly strong global demand. Capacity utilisation has increased sharply and is approaching levels normally seen during an economic boom. And as tends to be the case in such periods, skills supply is yet again a challenge that more and more companies are experiencing. In addition to labour shortages in certain sectors, the pandemic has given rise to other bottlenecks in production that risk holding back growth in industrial production in the near future.

The majority of forward-looking confidence indicators point to continued and rapid economic growth throughout the rest of the year. The National Institute of Economic Research's barometer indicator has risen to record highs and optimism is high among business leaders. The purchasing managers' index for both the manufacturing sector and the services sector is at historically high levels, though both seem to have reached their peak. The index for manufacturing declined to 60.1 in August and the index for the services sector to 64.6. This fall in the purchasing managers' index is a sign that a calmer growth phase lies ahead as soon as production losses have largely been recovered.

EXPANSIONARY POLICY

In late August, Prime Minister Stefan Löfven announced that he would resign as Prime Minister at the upcoming Social Democrats' congress in early November this year. The budget bill for 2022 was presented on 20 September and whether or not the Left Party and the Centre Party will vote through the budget without negotiations remains to be seen. The alternatives left for Löfven's successor is to either rule with an opposition budget or to resign. The likelihood of a new election so close to the ordinary parliamentary election in September 2022 is low. The budget for 2022 is highly expansionary and includes SEK 74 billion in unfunded reforms. These include tax cuts with an emphasis on low- and middle-income earners as a way of boosting household consumption, as well as measures to increase the pace of climate change adaptation and to strengthen the welfare system.

Monetary policy is also expected to remain expansionary for a long time to come. In September, the Riksbank decided to keep its monetary policy unchanged, despite the fact that CPIF inflation in August was significantly higher than the Riksbank's forecast. This means that the key interest rate remains unchanged at zero per cent, where it will stay for the next three years according to the Riksbank's repo rate path. The Executive Board also decided at the meeting in July to purchase bonds at a nominal amount of SEK 68.5 billion, which means a reduction in the purchasing rate. However, the previously agreed framework for securities purchases of SEK 700 billion will be fully utilised throughout this year. The holdings are then expected to be kept at the same level, at least during 2022, by reinvesting the expiring bonds.

The global economy's strong recovery continues to support industry and export growth. Exports will grow faster than GDP both this year and next year. The strong development and high capacity utilisation in the industrial sector are prompting a higher willingness to invest among companies. Investment growth was dampened during the pandemic but is now gaining momentum this year, and is expected to grow faster than GDP over the next couple of years. Housing investment is expected to rise as a result of sharp price increases in the market. However, the threat of a cement shortage due to the potential decommissioning of Cementa's production facility on the island of Gotland poses a risk to the forecast. As the labour market recovers and the pandemic fades, private consumption will also pick up speed and grow faster than GDP in 2022. Overall, GDP is expected to grow by 4.4 per cent this year and 3.5 per cent next year.

OPTIMISTIC EXPORT COMPANIES

Swedish export development has been strong during the first half of this year and will continue to grow sharply for the rest of the year, thereby making the largest contribution to GDP development in 2021. Goods exports represent the largest share, while exports of services continue to be partially held back. In fact, services exports fell back in the first half of this year following the second wave of rising infections and the tightened restrictions in late 2020. Services exports are still around 10 per cent lower than prior to the pandemic outbreak, while goods exports are 5 per cent higher than the pre-crisis level. Travel and transport services are the primary sectors holding back services exports. Signs of a recovery in overseas tourism in Sweden indicate stronger growth for the rest of the year, but any significant uptick will not take place until next year. The pandemic has prompted many companies to adapt their operations and switch to digital meetings. The outlook for business travel in the future remains uncertain and there is a risk that the decline in business travel will at least to some extent be permanent, given that companies have made large cost savings and reduced their environmental impact.

The global economy is developing strongly and the Swedish export market is growing considerably this year and at a rapid pace – slightly above the historical average – next year. Swedish exports will grow slightly faster than world trade both this year and next. The multi-speed economic recovery in the world leads to uneven growth for Swedish exports to different regions. The recovery in Europe, where more than 70 per cent of Swedish exports are destined, will be delayed into next year. This year, therefore, exports to Europe will grow at a slower pace than total exports, only to increase next year in line with the trend for total exports.

Indicators such as export order intake and Business Sweden's Export Manager's Index (EMI) point to continued high demand for Swedish exports, even though the indicators have fallen somewhat recently. EMI fell back in the third quarter after a record high in the second quarter. Despite downward indicators, export companies are still more optimistic than usual. The exception is the gloomy view of expected export demand from Asia over the next three months. The region's rising spread of infections and subsequent problems in supply chains have probably had a negative impact on the expectations among Swedish export companies and suppress export levels during the autumn.

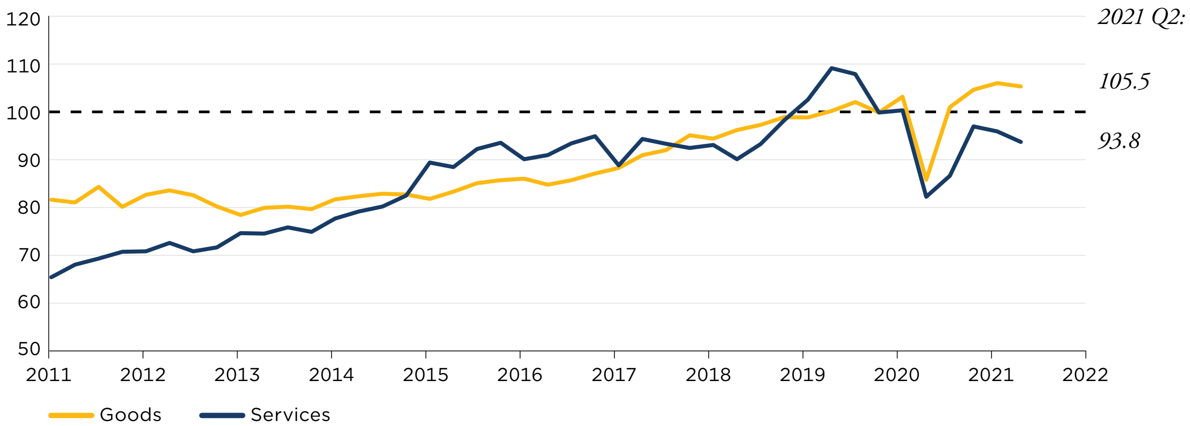
Total exports are expected to grow by 9.2 per cent this year and 5 per cent next year. Goods exports are driving the development and will increase by 9.7 per cent this year, while services exports are held back by remaining restrictions, due to grow by just 5 per cent. Next year, services exports will pick up speed and grow by around 7 per cent, while goods exports will begin to approach a more normal growth rate of 4.4 per cent.

STRONG RECOVERY IN GOODS EXPORTS
Forecast for Sweden's goods exports

REGION	% growth, constant prices		Share of Sweden's exports 2020, %
	2021	2022	
Europe	8.4	4.4	71.7
Asia and Oceania	12.1	6.2	13.5
North America	14.3	2.9	9.8
South America	21.1	0.4	1.3
Africa	12.5	2.0	1.7
Middle East	5.7	3.7	2.0
Global	**9.7**	**4.4**	**100**

Sources: Oxford Economics, Statistics Sweden, Business Sweden (2021)

GOODS EXPORTS DRIVING GROWTH THIS YEAR
Swedish exports, constant prices, index 2019 Q4 = 100



Sources: Statistics Sweden and Business Sweden

EUROPE

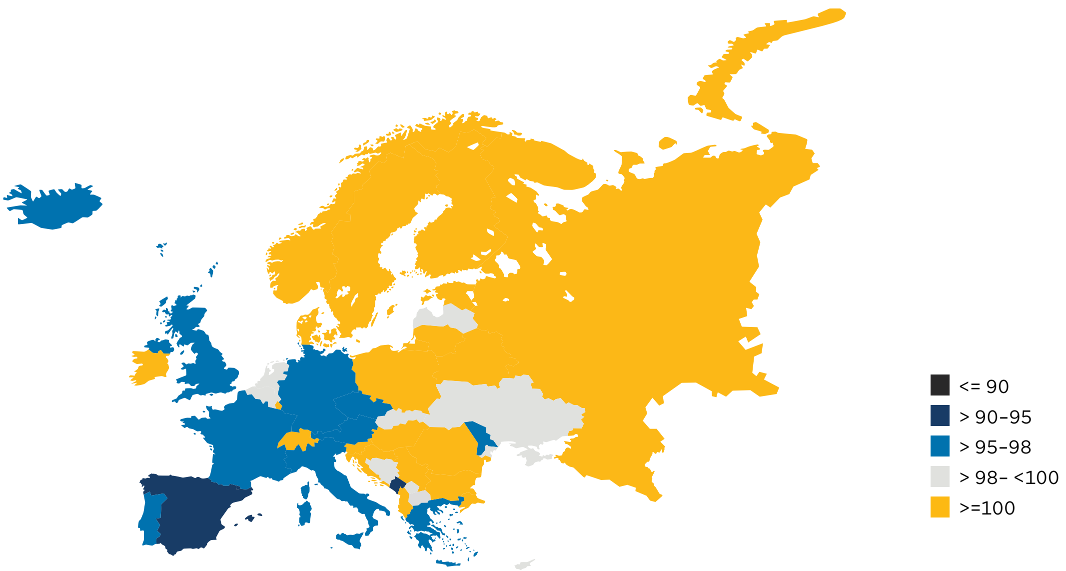
The coronavirus crisis led to a GDP loss in Europe of 6.1 per cent last year, with large variations between countries. The starting point for a recovery differs therefore between, for example, Germany, with a drop of just under 5 per cent, and Spain, the hardest hit country with a fall of almost 11 per cent. The countries' business sectors are also differently equipped to tap into the upswing in the world economy. Thanks to their export-oriented production, large industrial nations such as Germany, France and Italy were largely protected from economic damage early in the pandemic. Growth is now accelerating in countries where the services sector dominates, such as the UK and Spain, following eased restrictions, although slow growth in tourism continues to weigh on Southern Europe. Last year's decline was less severe for Eastern Europe and the Nordic countries, and the economic rebound is thereby taking place from higher levels, underpinned by demand from major European economies. The European economy is expected to recover with 5.1 per cent growth this year and 4.6 per cent growth in 2022, primarily in an upswing for private consumption and investments.

RECOVERING FROM DIFFERENT STARTING POSITIONS

Following a slow start to the year, momentum in the European economy picked up in late spring, fueled by the Next Generation EU recovery package, extensive national crisis and stimulus measures and continued expansionary monetary policy. The European Central Bank (ECB) has increased its asset purchases under the Pandemic Emergency Purchase Programme (PEPP) to EUR 1,850 billion while extending the programme until the end of March 2022 at the very least, or until the coronavirus crisis is deemed to be over. At its most recent monetary policy meeting in September, the ECB decided to reduce the programme's purchasing rate during the fourth quarter this year. The key interest rate remained unchanged at zero per cent where it is expected to remain until inflation stays permanently at the target of two per cent below the forecast horizon. We do not expect any interest rate hike before the end of 2023.

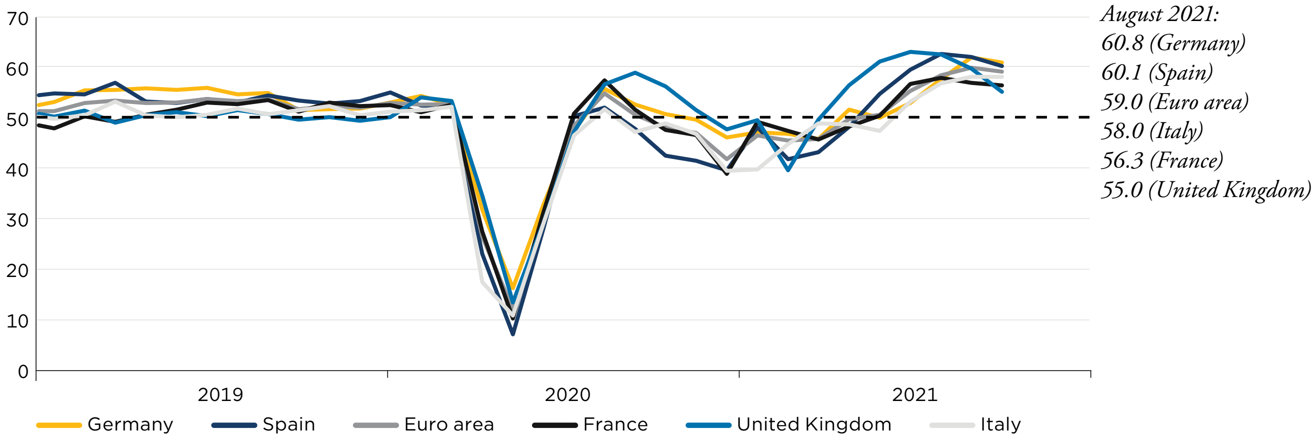
In late spring, the European retail sector gathered momentum as restrictions were lifted and an increasing share of vaccinated people began to move

ECONOMIC RECOVERY RATE, GDP 2021 COMPARED TO 2019, CONSTANT PRICES, PER CENT



Sources: Oxford Economics, Business Sweden

STRONG UPSWING FOR THE SERVICES SECTOR
Purchasing managers' index, services sector



Source: IHS Markit

more freely. Crisis savings among households were reduced in favour of consumption. Consumer confidence increased during the summer and neared the same level recorded before the pandemic. Newly-awakened inflation, which is largely due to rising energy and food prices, is also having a negative impact on the purchasing power of households during the autumn.

Throughout the coronavirus crisis, unemployment has been held back by national measures to facilitate short-term furloughs and temporary reductions in working hours for employees in struggling businesses. After peaking at 7.7 per cent in August 2020, unemployment in the EU area remained stable around the same level until April 2021, when it gradually began to fall – dropping to 6.9 per cent in July. The labour market has now entered an active recovery phase with many new recruitments taking place in the services sector.

The confidence indicators for the business sector are pointing upwards, with indices for order backlogs, production and new hires at historically high levels. Industrial production has recovered the loss from last year. However, the purchasing managers' index for the manufacturing sector in the euro area fell slightly during the summer, driven by an acute shortage of specific intermediate goods and persisting challenges in international freight. The index fell to 61.4 in August, from a record high of 63.4 in June.

After the purchasing managers' index for the services sector in the April survey crossed the 50 mark, which indicates market growth, the index has climbed steadily – reaching 59.8 in July. As for manufacturing, the August survey indicated that the peak had been reached, with a slight decline to 59.0.

A sharp increase in global demand for goods boosted EU goods exports by 14 per cent in the first half-year compared with the same period 2020. Exports to China increased by 20 per cent, while exports to the US rose by 11 per cent.

The largest downside risk in the strong growth outlook for Europe this year and next is linked to potential escalation of infections and that vaccines prove less effective against new mutations of the coronavirus. Another uncertainty factor is the financial viability of European companies, especially small businesses, when public support measures are withdrawn.

DELAY IN GERMAN IMPETUS

Germany. The repercussions of the coronavirus crisis for Germany have been more moderate than for the other major European economies. GDP in Germany fell by 4.9 per cent last year, while GDP in the other large economies fell by between 8 and 11 per cent.

At the same time, the German recovery is slower than expected. Despite robust and growing global demand, production in the country's manufacturing sector stagnated this year, as the critical automotive industry, among other factors, was hit by a shortage of semiconductors, plastic components and other intermediate goods. Exports have nevertheless regained lost ground and gradually climbed to the same level recorded before the pandemic.

The problems facing Germany's industrial sector have partly been offset by the current upswing for services. In a labour market that is regaining strength, unemployment fell from 6.3 per cent to 5.5 per cent between January and August, which is still well above the pre-crisis level of 5.1 per cent.

Private consumption is expected to increase by just over one per cent this year, due to the fact that consumption fell during the first half of the year. Households' purchasing power is eroded by a hike in consumer prices, which in August grew to as much as 3.9 per cent at an annual rate, the highest increase in almost 30 years. The main drivers of the increase, which is considered to be temporary, are an increase in VAT which cancels last year's crisis reduction, and rising prices for energy and food.

The German research institute Ifo's monthly survey of the economic prospects in the private sector shows that companies' confidence in the future has declined during the summer. The index is still high and significantly above the pre-crisis level. The Delta variant contributes to uncertainty around economic development, which Germany shares with the rest of Europe and the world.

The country's GDP growth will be limited to 2.9 per cent in 2021. Next year, growth is expected to accelerate to 4.6 per cent, in a broad economic upswing where the boost in private consumption of just under 9 per cent takes the spotlight. Regardless of the outcome, the forthcoming parliamentary elections on 26 September are not expected to have any major effect on the German economy, including the government's crisis management during the remainder of the pandemic.

France. The country is in an accelerating growth phase where the services sector is the driving force. Most restrictions to combat the spread of infections have been lifted coupled with the government's July introduction of so-called health passes, proving that individuals are fully vaccinated against Covid-19, or that they have recently tested negative. The requirements for health passports for public space access were extended in a government decision in August, which also applied to cafés, restaurants, hotels and long-distance transport. As a result, vaccination coverage among adults in France has increased to 80 per cent.

Unemployment rose during the pandemic to 9 per cent, but has as a result of lifted restrictions fallen to 7.9 per cent in a labour market that has yet again seen a large influx of young people. At the same time, French companies report difficulties in finding the right skills for new recruitment.

The economic recovery is expected to result in GDP growth of 6.3 percent this year, following a sharp rise in private and public consumption and a rebound for investments. Private consumption will gradually increase by 4.9 per cent this year and 6 per cent next year, which supports a GDP forecast of 4.3 per cent for 2022, with strong export development being another important contributing factor.

The UK. Following a sharp fall in GDP of almost 10 per cent last year, the UK economy has currently put both the coronavirus pandemic and Brexit behind it. Society opened up entirely in the summer and widespread demand is now back, driven largely by public consumption. However, the government's extensive crisis support measures, including government compensation for short-term furloughs, will be phased out during the autumn.

This year, the UK economy is expected to bounce back with 7.2 per cent growth, followed by a consumption- and investment-driven upswing prompting GDP growth of 6.1 per cent in 2022. A slow recovery for exports is the only sign of weakness. Following Brexit, EU imports of British goods have fallen by almost 20 per cent, which is a major contributing factor to the expectation that UK exports will have zero growth this year. Next year, exports are expected to grow by just over 10 per cent, but from a low level.

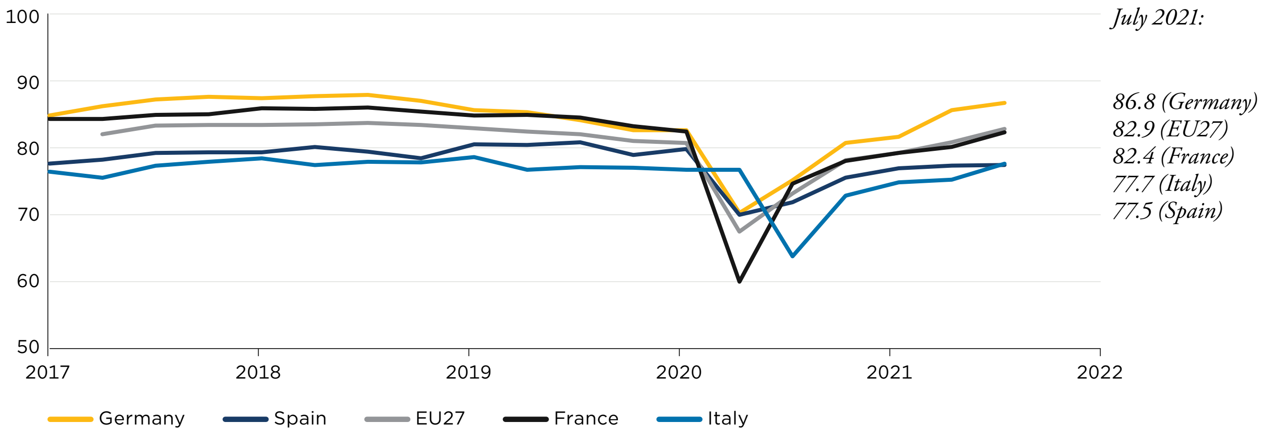
Italy. Italy's crisis-stricken economy is recovering surprisingly fast across the board. Consumers and businesses are more optimistic about the economic outlook than in several years. The industrial sector is developing strongly with a simultaneous promising development for goods exports. The investment rate is expected to reach a 14 per cent high this year following a drop of 9 per cent last year. The services sector boomed during the summer, although the rebound for critical overseas tourism is expected to be delayed until 2022. The labour market decline has bottomed out and unemployment fell to 9.3 per cent in July from a peak of 10.2 per cent in January. Household optimism spills over into increasing private consumption of 4.5 per cent this year and 6.2 per cent next year. The strong outlook is partly due to the fact that Italy is one of the largest beneficiaries of the EU's Next Generation EU recovery package but also the long-term budget. By 2026, some EUR 235 billion will be made available to restart the Italian economy, with two thirds of the amount set aside for the green transition and digitalisation. GDP growth is expected to reach as high as 6.1 per cent this year and 4.4 per cent in 2022.

Spain. The Spanish recovery is also demonstrating strong momentum. But as the worst-hit country in Europe, both economically and in terms of infections, with a GDP decline of 10.8 per cent last year, the economy is growing from a lower level of activity than other European countries.

Unemployment at just over 15 per cent is declining, but the country also has the highest youth

MANUFACTURING GOES FULL STEAM AHEAD

Capacity utilisation in the manufacturing sector, per cent



Source: Eurostat

unemployment in the EU, at 37 per cent. The increased activity in the services sector in recent months has improved the labour market situation. But despite an upswing for the hard-hit hospitality industry, preliminary figures show that tourism this year will be halved compared to the pre-pandemic level.

Spain's GDP is expected to grow by 6.5 per cent this year and 5.8 per cent in 2022. Growth will be driven by a rise in private consumption and investments and will be further reinforced by the EUR 70 billion contribution from the EU recovery package, as well as the long-term budget. However, the Spanish economy will not return to pre-crisis levels before 2023.

LOW VACCINATION COVERAGE – A CONCERN FOR EASTERN EUROPE

In Eastern Europe, last year's decline was generally less steep than in Western Europe and was mitigated to some extent by extensive EU support. The export-oriented private sector is expected to increase activities this year, including in its supply-role for German companies. Eastern Europe's lower vaccination coverage in the population, averaging 37 per cent compared to Western Europe's 67 per cent, makes the region vulnerable to a new wave of infections and the highly contagious Delta variant.

Poland's economy is picking up speed with sharply increased private consumption and a high rate of investment, thereby rebounding from last year's decline. Industrial production and exports, which fell only marginally during last year's crisis, are expected to show exceptional growth figures of 13 and 12 per cent respectively in 2021. The forecast is GDP growth of around 5 per cent both this year and next. The low willingness among the Polish population to get vaccinated gives cause for concern.

Last year's GDP fall in Hungary is expected to be reversed by growth of 7.2 per cent this year and 5.2 per cent in 2022. The recovery is much slower in the Czech Republic, where the economy is expected to expand by 3.1 per cent this year and 4.9 per cent next year. With zero growth in private consumption this year and a continued low rate of investments, the Czech Republic stands out among the Eastern European economies. In Russia, the coronavirus continues to claim many lives on a daily basis. Despite this, the willingness to get vaccinated remains low and only 28 per cent of the population are fully vaccinated. At the same time, few restrictions are in place that limit activity in the economy. Private consumption is on the rise, as is the rate of investments. Extra government revenue due to the rise in oil prices to around USD 70 per barrel facilitates the government's expansionary fiscal policy. However, households' purchasing power is undermined by consumer prices, which are expected to rise by almost 6 per cent in 2021. Following a GDP loss of 3 per cent last year, the Russian economy is expected to expand by 4.5 per cent this year and 2.8 per cent in 2022.

NORDICS IN THE LEAD

For the Nordic countries, last year's GDP loss was limited to between 1 and 3 per cent, which explains why the current economic upswing is taking place from a relatively high level. The Nordic countries have an advantageous starting position due to sound public finances and low public debt.

After a decline of 2.9 per cent in 2020, the Swedish economy is back at its pre-crisis level where industry and exports are the engine of growth. The purchasing managers' index and other confidence indicators point to strong growth for the rest of 2021. The economy is expected to expand by 4.4 per cent this year and 3.5 per cent in 2022. For more, see section on the Swedish economy.

Finland's successful fight against infections combined with mild restrictions contributed to a moderate, 2.9 per cent economic decline last year. The recovery is progressing with expected GDP growth of 3.1 per cent this year and 2.2 per cent in 2022. A limited increase in private consumption and a weak investment rate dampen the growth prospects. The Danish economy has fully recovered last year's GDP loss of 2.1 per cent, in a boost to private consumption and exports and continued solid investment rate. The economy is expected to expand by 3.2 per cent this year and 3.5 per cent next year. Norway's economy will grow by 3.3 per cent this year and 3.8 per cent in 2022, in a broad recovery from last year's decline of 1.3 per cent. Norway's central bank is expected to raise the key interest rate from its current zero per cent-level during its September meeting, which makes it the first central bank in the western world to do so since the outbreak of the pandemic.

NORTH AMERICA

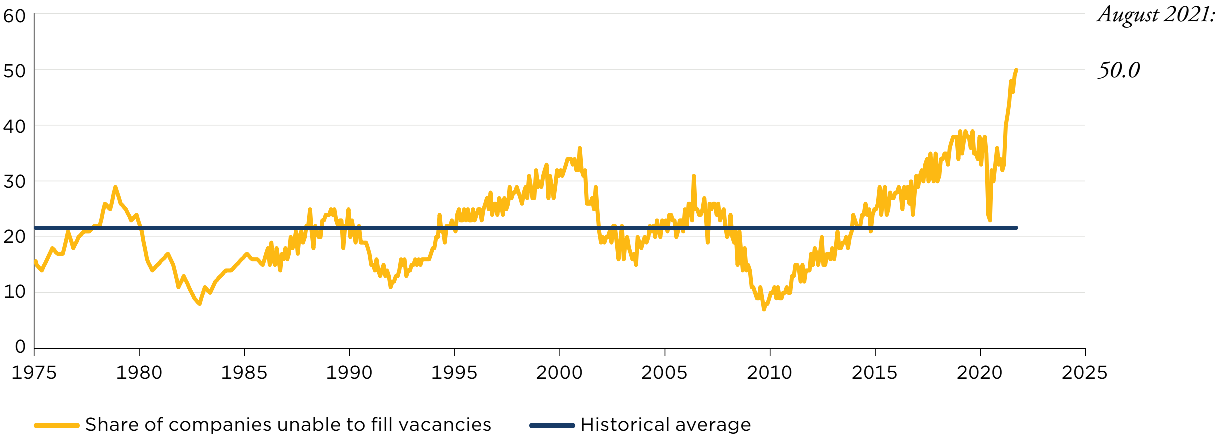
Generous public stimulus and rescue packages continue to fuel the economic recovery in the US, with positive spillover effects for the rest of the world – not least in neighbouring Canada and Mexico. Following a strong recovery, the US economy, which plays a key role in the region as a whole, is now entering a calmer growth phase. However, the rapid spread of the Delta variant in the US poses a serious near-term risk, which could stifle growth this year. At the same time, new fiscal policy investments in infrastructure worth USD 1 trillion have recently been approved by the Senate. GDP in North America is expected to grow by 6.1 per cent this year and 4.7 per cent in 2022.

US ECONOMY DRIVES REGIONAL GROWTH

Massive American fiscal stimulus packages have contributed to a rapid recovery in the US. At the beginning of March this year, the Biden administration's support package – The American Rescue Plan amounting to USD 1,900 billion – was approved. The comprehensive support package, which includes USD 1,400 billion in payments to households, provides a major boost to economic activity this year (just over 90 per cent of the support package will be issued in 2021). President Biden has also proposed two additional initiatives. In early August, the Senate approved the USD 1,000 billion infrastructure package, the American Jobs Plan. This money will be invested over 10 years and to upgrade the country's roads, ports, electricity networks and broadband. The House of Representatives also voted in favour of a proposal for further negotiations on a comprehensive USD 3.5 trillion package – the so-called American Families Plan. The initiative aims to reduce income gaps and enable more American families to afford healthcare, education and childcare. The vote will allow Democrats to work on the details of the plan before it is time for a vote in both chambers of Congress. As the proposals have not yet been adopted by Congress, the overall scope and design of the packages remains uncertain.

At the same time as further fiscal policy initiatives are planned in the US, discussions are underway regarding the US debt ceiling. The debt ceiling is a binding limit on how much the US government is entitled to borrow to meet its legal obligations, including interest payments on the national debt. The debt ceiling came into effect at the end of July after having been temporarily repealed since the summer of 2019. The Ministry of Finance had

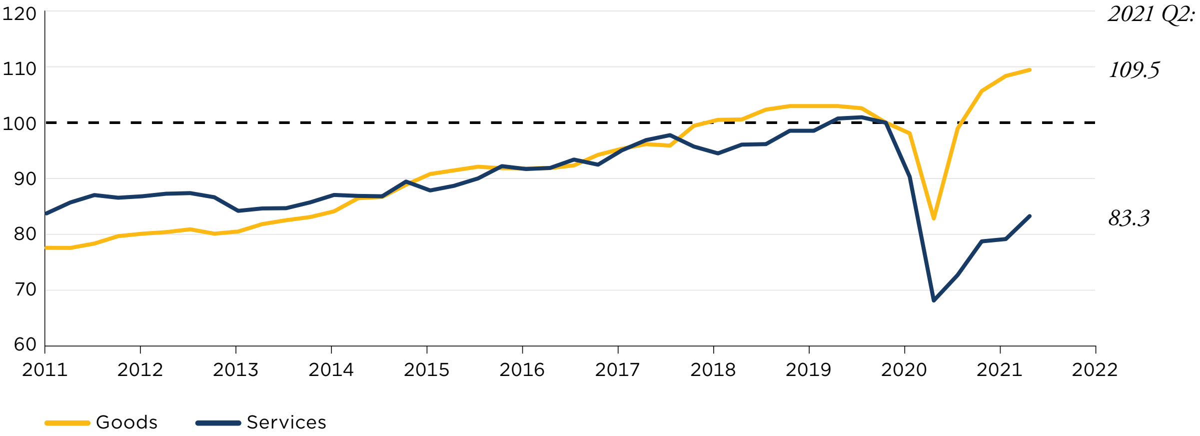
LABOUR SHORTAGE IN THE US
Share of companies unable to fill vacancies, per cent



Sources: Conference Board and NFIB Research Foundation

HIGH APETITE FOR SPENDING IN THE US

US import of goods and services, constant prices, index 2019 Q4 = 100



Sources: Business Sweden and U.S. Bureau of Economic Analysis (BEA)

to introduce emergency measures as a result of the implementation, including pending investments in pension programmes, as a way of managing existing liquid assets. According to the [Congressional Budget Office], the Democrats have until October or possibly November to make a decision before the money runs out. Congress must quickly decide whether to raise or withdraw the debt ceiling before the US has to suspend its government debt payments. Forcing the US to suspend payments would likely lead to sharply higher market interest rates and a weakening of the dollar.

During the interest rate announcement at the end of September, the US Federal Reserve (Fed) emphasised that the noted rise in inflation was deemed to be temporary. It was further pointed out that both the goal of full employment and a permanently higher inflation must be met before an interest rate increase would be considered. The Chair of the Fed Jerome Powell announced that they will 'soon' begin to reduce bond purchases, so called "tapering", given that the recovery is going according to plan. Based on the members' expectations of the future development of the key interest rate, any rate increase from the current interest rate corridor of 0.00–0.25 per cent will probably not be considered until 2023. However, half of the Fed members now want to see the key interest rate raised already next year. But the median of the Board votes does not indicate any increase until 2023, when the rate is expected to be raised twice by 0.25 percentage points at a time.

Both fiscal policy and monetary policy in the US will be less expansionary in the future than during the pandemic, as crisis measures introduced last year are now phased out. The US response to the pandemic has been forceful and the US economy is expected to not only recover the lost production of last year but also the expected growth last year, had the crisis never occurred. The thriving US economy is the growth driver for the rest of the region both this year and next year.

GROWTH HAS PEAKED IN THE US

Extensive stimulus measures, combined with high vaccination coverage and eased restrictions, have contributed to rapid recovery in the US economy. About 50 per cent of the US population is fully vaccinated, but the degree of vaccination varies between states. GDP growth increased sharply during the second quarter, with household consumption proving to be particularly strong. The consumption-driven recovery is clearly seen in retail sales, which have risen to significantly higher levels than before the crisis. Industrial production, on the other hand, has recovered at a slower pace. A shift in household consumption has begun where people are again choosing to consume more contact intensive sectors/services, at the expense of goods consumption. This props up the recovery in the hard-hit services sector. Optimism among households is strong and the purchasing managers' index for both the industrial and the services sectors points to continued expansion, albeit at a slower pace. US GDP has now surpassed the level recorded before the outbreak of the pandemic, and the recovery is entering a calmer phase.

Disruptions on the supply side, including shortages of intermediate goods and labour, delays in delivery times and dwindling stocks of consumer goods are holding back economic development this year. Although the labour market has strengthened during the year with a greater number of people entering the workforce, many companies are reporting a shortage of labour and surveys indicate prevailing difficulties in matching job seekers with vacancies. The labour market recovery varies in different industries, where employment in services requiring human interaction have not recovered at the same pace seen in the manufacturing sector. When the higher unemployment benefits are withdrawn and restrictions are eased, the number of employed is expected to rise.

US imports of goods have increased rapidly since the sharp decline of last year at the onset of the pandemic and have contributed to the strong recovery in world trade. Imports of lasting goods in industry such as machinery, steel products and building materials as well as consumer goods in the leisure goods segment have particularly increased this year. Exports have also developed well this year, especially exports of intermediate goods and food which have increased rapidly. Although trade has developed strongly, tensions remain high between the US and China. Since the so-called Phase 1 agreement was concluded in early 2020, high tariffs between the two countries are still in place. The agreement aims to reduce the US trade deficit with China and contains Chinese commitments to increase imports of US goods. Up to and including July 2021, the value of US goods exports to China covered by the Phase 1 agreement amounted to USD 79 billion, which means that 70 per cent of the set target has already been achieved.

Growth in the US economy this year is driven by a boom in household consumption during the first half-year, fueled by fiscal stimulus and the phasing out of restrictions. However, GDP growth will enter a calmer phase during the second half of the year as the purchasing spree draws to a close. Investment growth will then pick up speed and grow faster than GDP for a couple of years to come. In total, GDP is expected to rise by 6.1 per cent in 2021 and 4.8 per cent in 2022 as a result of public investments, and then return to a more normal growth rate of around 2.5 per cent in 2023.

Canada. The vaccination process in Canada continues at a rapid pace and the spread of infection has fallen to its lowest level since last summer. By mid-September, 68 per cent of Canada's population was fully vaccinated. GDP is well on its way to recovery, but is still two per cent lower than before the crisis. GDP growth is expected to pick up speed during the second half of the year as the economy gradually opens up. The labour market recovery continues and unemployment has fallen down to 7.5 per cent which, however, is a high level compared to the pre-crisis level of 5.7 per cent. Households have increased their savings significantly during the pandemic and now have a pent-up need to consume, which is expected to boost consumption growth as the economy opens up more and more. Business confidence is high and investments are expected to pick up during the second half of 2021 and remain strong over coming years. The strong US economy will drive Canadian export growth in the future as around 70 per cent of exports go to the United States. As in many other parts of the world, inflation is rising due to pandemic-related effects. Monetary policy continues to support the recovery and the key interest rate is expected to remain at 0.25 per cent during the forecast period. However, the Bank of Canada has begun phasing out its weekly bond purchases. Overall, GDP is expected to grow by 6.7 per cent in 2021 and 3.9 percent in 2022.

Mexico. Mexico has been hard-hit by the pandemic with over 250,000 registered deaths – the highest death toll in the world after the United States, Brazil and India. The spread of infection dropped during the spring but regained momentum during the summer with deaths rising again. The pace of vaccination is slow and just 30 per cent of the population is fully vaccinated. Despite this, the country has only introduced relatively light restrictions. The Mexican economy is well on its way toward recovery following a sharp fall in GDP of 8.5 per cent last year, now driven by stronger growth in the services sector and recovering tourism to the country. In addition, the economy is benefitting from positive spillover effects from the strong recovery in the US market, where 80 per cent of Mexican exports are destined. GDP in Mexico is two per cent lower than its pre-pandemic level and the economy will not return to its pre-crisis level before the beginning of 2022. GDP is expected to grow by 6.5 per cent in 2021 and 3.0 per cent in 2022.

HIGH COMMODITY PRICES BENEFIT SOUTH AMERICA

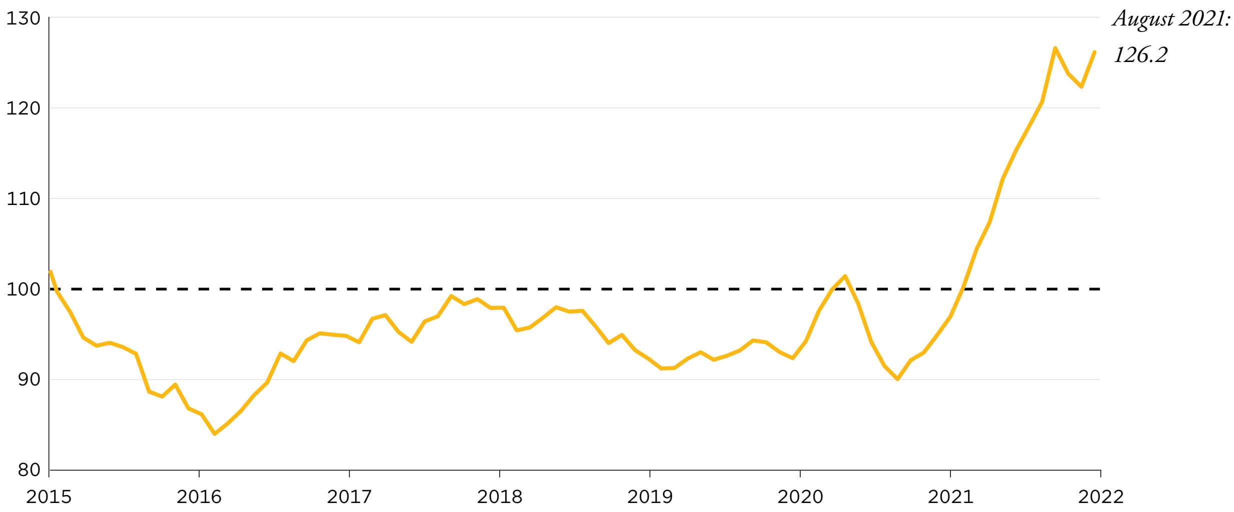
The South American countries will continue to recover this year and large parts of the production loss is being recovered thanks to eased restrictions, strong global demand and higher commodity prices. GDP in Brazil, Chile and Colombia is back at pre-crisis levels already this year, but the other countries in the region will have to wait until 2022 or later before pre-crisis levels are regained. Argentina and Venezuela, which were both burdened by major economic and political challenges before the pandemic, will not reach pre-crisis levels until beyond 2023. The pandemic continues to pose a risk to the region as most countries have more ground to cover before vaccination goals are achieved. The proportion of the total population that is vaccinated is about 35 per cent in the region as a whole. Limited opportunities for fiscal policy and political tensions in large parts of the region risk hampering the future outlook.

Inflation has risen sharply in the region, especially in Brazil, Chile, Colombia and Peru, where increases in food and transport prices play a large role. Inflation during the rest of the year will be driven by higher energy prices, imbalances in supply and demand and increased activity when restrictions ease.

Brazil. The spread of infections in hard-hit Brazil continued at a rapid pace during the summer at the same time as the vaccinations progressed. About 35 per cent of the country's population is fully vaccinated. President Bolsonaro and his government, unlike many other countries in the region, have chosen not to introduce nationwide measures to curb the spread of infection. However, local restrictions have been introduced in many states. GDP was back at pre-pandemic level in the first quarter this year when it made a surprising recovery. The agricultural sector and the food industry have expanded during the pandemic and are becoming increasingly important sectors for Brazil's economy. Being one of the world's largest exporters of sugar and orange juice, and a major producer of maize, soybeans and coffee – Brazil suffered the worst frost damage in 20 years this summer. The frost has severely damaged coffee plantations which has led to a sharp rise in the global market price for coffee beans. With high food prices, exports are expected to give GDP growth a positive boost this year, which is also expected to remain strong next year.

Rising commodity prices have also contributed to a sharp rise in inflation in South America, especially in Brazil, where inflation reached 9.7 per cent in August. As a result of rapidly rising inflation, the central bank has raised the key interest rate four times, from 2 per cent in March to 5.25 per cent in August. Monetary policy is expected to tighten further during the year. The key interest rate is expected to rise to 9 per cent in 2022. The expenditure ceiling leaves no room for fiscal stimulus, even though rising commodity prices benefit the treasury by contributing to a lower budget deficit. Overall, a much tighter economic policy is expected in coming years. At the same time, political polarisation and social discord continue to escalate ahead of the October 2022 presidential election. The economic recovery continues, but the outlook for next year is uncertain. The pandemic has also left a heavier debt burden in both the private and public sectors, which weighs on the long-term growth outlook. GDP is expected to rise by a total of 5.7 per cent in 2021 and 2.1 per cent in 2022.

FOOD PRICES CONTINUE TO RISE
Global food prices, index December 2019 = 100



Source: UN Food and Agriculture Organization (FAO)

IMBALANCES PUT UPWARD PRESSURE ON PRICES

Inflation has returned in the wake of the pandemic and there is a measure of concern among central banks and investors that rising inflation will continue long-term. This is especially the case in the US, where inflation has risen well above expectations. Consumer price inflation rose in June to 5.4 per cent year-on-year, which is the highest inflation rate in 13 years. Since then, inflation has remained high and in August inflation reached 5.3 per cent. Inflation is expected to fall during the remaining months of 2021, settling at 4.8 per cent at the end of the year. Next year, inflation is expected to fall back to 2.7 per cent on average. This is significantly higher than the inflation target of 2 per cent. The recent rise in inflation can largely be explained by three main factors.

1) Base effects: Many prices fell to low levels last year due to the pandemic, which leads to a high inflation rate this year when the economy reopens and prices normalise, so-called base effects.

2) Imbalances between supply and demand: Inflation has been driven by pandemic-related imbalances in certain goods and services markets. American households have received large sums in direct cash subsidies, which has contributed to increased demand for goods and services. When companies do not have production capacity to restart and meet rising demand with greater supply, prices rise.

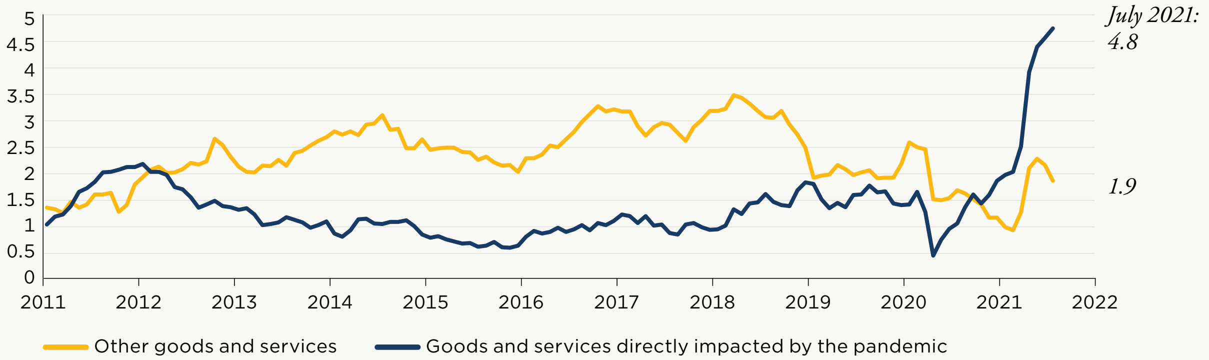
3) Bottlenecks in industry: The automotive sector has been particularly hard-hit by production disruptions due to a shortage of semiconductors and components. One effect of the automotive industry's inability to meet the increased demand for passenger cars when restrictions eased, is that consumers have turned to the second-hand market. The prices for used cars in the US have increased by more than 40 per cent at an annual rate this year, which corresponds to a contribution of one percentage point to inflation.

All the above-mentioned factors are pandemic-related and the rise in inflation is therefore considered to be temporary. To illustrate how the pandemic has affected inflation, the Federal Reserve San Francisco has divided the components of inflation into two sub-groups, those that are highly and slightly impacted by the pandemic. In July, inflation for goods and services that are vulnerable to the pandemic amounted to 4.8 per cent, while inflation in the second group measured just under 2 per cent. The indications are that inflation will fall back when restrictions are eased globally, when labour market supply grows and when companies can increase their production capacity to meet demand.

Nonetheless, there is a risk that the rise in inflation will prevail for some time. In the near future, the inflation outlook will largely be affected by the duration of the imbalances between supply and demand. The risk of continued disruptions in global supply chains and production stages has increased with the spread of the Delta variant, primarily in Asia but also in the US, which may affect supply for some time to come. With continued high demand, inflation may remain at a high level longer than expected. At the same time, consumers' purchasing power is eroded by high inflation, unless wages rise at the same rate. Any upward pressure on wages has, so far, not been proven. During the second quarter, wages rose by 2.8 per cent at an annual rate, which can be compared with an average wage increase of 2.7 per cent in 2019. It will be important to follow wage developments in the future, not least for the Federal Reserve. Long-term inflation expectations, which is a key factor in price and wage formation, have been relatively stable at around 2–2.5 per cent this year.

PANDEMIC-DRIVEN INFLATION IN THE US

Personal consumption expenditures (PCE), annual percentage change



Note: Results based on the underlying measurement of personal consumption expenditures (PCE), distributed over goods and services that were heavily impacted and moderately impacted by the pandemic. The most vulnerable are revealed by prices or quantities that changed significantly during the onset of the pandemic, between February and April 2020. These account for two-thirds of the PCE measurement.

Source: Federal Reserve Bank of San Francisco

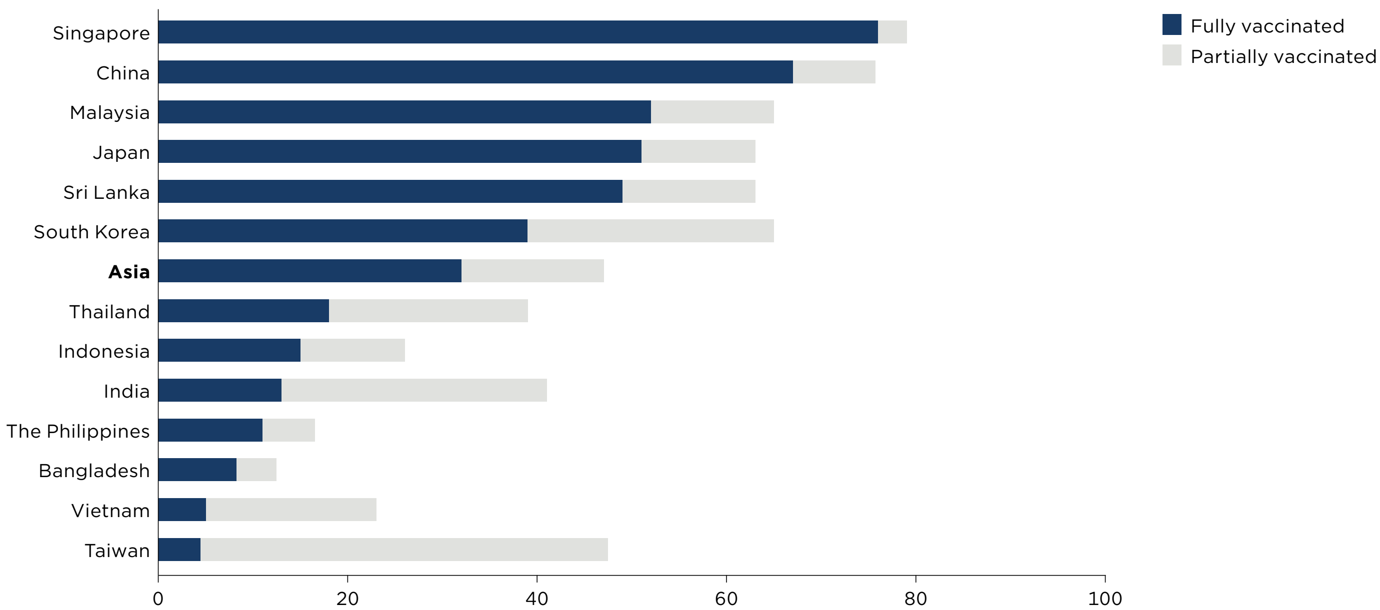
ASIA

In most Asian economies, GDP is back at pre-crisis levels this year, although large parts of the region are experiencing delays in the recovery due to the rapid spread of the Delta variant and tighter restrictions. Markets in Southeast Asia and China have been particularly hard-hit by tighter restrictions in recent months. Restrictions and local shutdowns are causing problems not only in the region but also in global supply chains. Disruptions in container and freight transport coupled with a shortage of intermediate goods pose a risk to production in Asia and the rest of the world. In all, this means that the region's GDP growth will be held back this year and then increase at a robust pace next year. The growth forecast for Asia and Oceania is 6.2 per cent in 2021 and 5.0 per cent in 2022.

WIDE GAPS IN VACCINATION COVERAGE

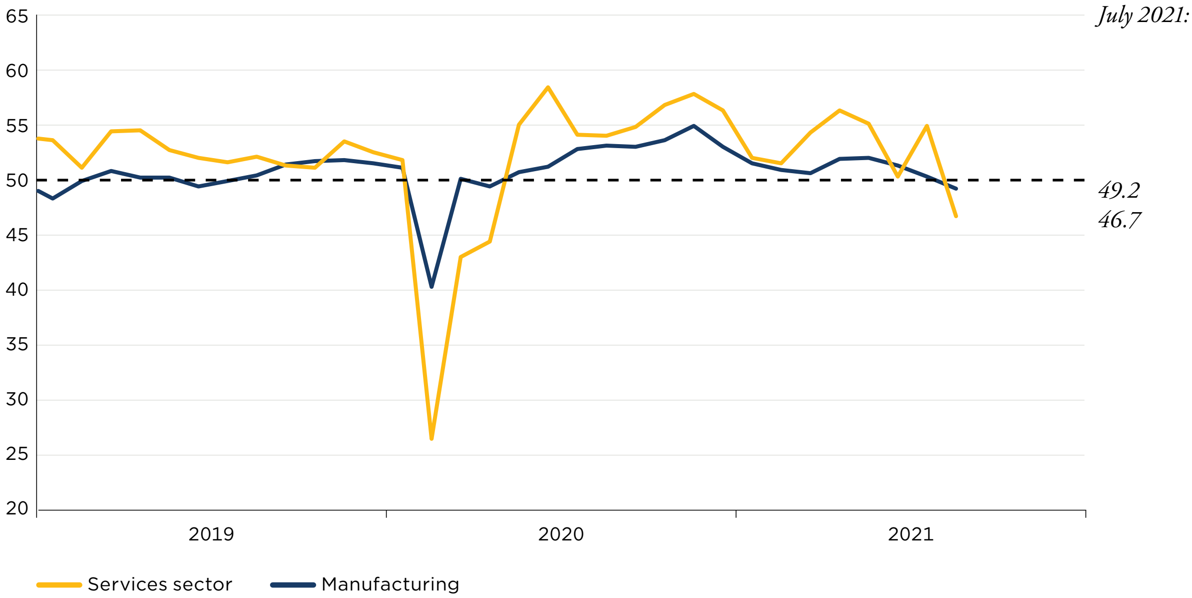
Asia and especially Southeast Asia have been hard-hit by the extremely rapid spread of the Delta variant of the virus. Vaccination coverage differs greatly between the countries in the region, where many of the less developed economies such as Vietnam, the Philippines and Bangladesh, have only administered two doses of vaccines to 10 per cent of the population. Other countries have come further in the process, such as Singapore, South Korea, Japan and China, where about half of the populations are fully protected. The low vaccination coverage and low tolerance infection spread in many countries have forced authorities to tighten restrictions and even shut down parts of society, which weighs on economic activity in the short term. China has zero tolerance for infection spread, where strict measures to curb infection rise are holding back activity in the domestic economy. Weaker Chinese growth will have negative spillover effects on the rest of the region, as China is an important trading partner to most Asian countries, not least countries in Southeast Asia, Japan and South Korea. GDP growth in the region as a whole is negatively affected in the short term, but as more people are vaccinated and restrictions can be eased, the recovery can resume.

PACE OF VACCINE ROLL-OUT DIFFERS CONSIDERABLY ACROSS ASIA
Vaccination rate, per cent of total population



Source: Our World in Data (14 September 2021)

DAMPENED PRIVATE SECTOR ACTIVITY
Purchasing managers' index, China



Source: IHS Markit

TEMPORARY DAMPENING OF GROWTH RATE

GDP in several Asian markets such as China, Taiwan and Vietnam was back to pre-crisis levels already in 2020. Strong global demand for goods, especially in electronics and not least semiconductors, continues to benefit markets in East Asia, including South Korea, Singapore and Taiwan. Japan, which also has a large electronics industry, has suffered many setbacks in terms of the spread of infection, with extensive restrictions and shutdowns as a result. GDP is approaching its pre-crisis level, but it will be well into 2022 before the Japanese economy is back at its pre-crisis level.

The recovery in Southeast Asia has not progressed at the same pace as in the rest of the region and GDP is still not back at pre-crisis levels in countries such as Malaysia, Thailand and the Philippines. GDP in Indonesia, on the other hand, was back to pre-crisis levels already in the second quarter of this year. The common factor for the Southeast Asian economies, with the exception of Malaysia, is that they have low vaccination coverage. The spread of infection has also significantly hampered tourism, which is an important sector in these countries, especially Thailand. Large parts of Southeast Asia are experiencing a delayed recovery due to the rapid spread of the Delta variant and tighter restrictions. In South Asia, the Indian economy was burdened by tight restrictions in the spring, which led to a sharp decline in GDP in the second quarter of this year. This means that India's GDP is now 10 per cent lower than before the onset of the pandemic.

China. The Chinese economy recovered quickly from the pandemic and GDP was already in the second quarter of 2020 back at higher than pre-crisis levels. However, looking back, economic activity was relatively weak in the first half of this year compared to the historical development. Retail sales have continued to grow but at a somewhat slower pace than before the pandemic. Local shutdowns in society following the rise of the Delta variant coupled with floods in parts of the country have held back household consumption. In addition, the government has introduced measures to reduce CO_2 emissions, which has weighed on certain sectors of industry. Growth in industrial production has increased at a somewhat slower pace in recent months compared to the pre-crisis development. Unemployment fell during the year and reached 5.1 per cent in August, which is close to the pre-crisis level. Consumer confidence remains high, which is expected to contribute to increased consumption in the future.

The start of the third quarter shows continued weak development in the Chinese economy. The purchasing managers' index for the services sector fell sharply in August to 46.7, from 54.9 in July, indicating that the services sector is shrinking. The purchasing managers' index for the manufacturing sector continues to dampen and fell just below the 50 mark in August, indicating that the manufacturing industry is no longer expanding. Export growth remains robust, while import growth has slowed somewhat in recent months, especially imports from the euro area. In August, the authorities closed down the Meidong Terminal in Ningbo-Zoushan port in eastern China after coronavirus cases were confirmed. The terminal is China's busiest container port and is also one of the world's largest of its kind. The shutdown is likely to lead to delays in deliveries during the autumn and cause problems in supply chains and production.

The Chinese authorities have pursued a less expansionary economic policy in 2021, which has caused a slowdown in growth for fixed investment. Government investment in infrastructure and real estate are the primary areas affected by the slowdown, while investment in the manufacturing industry is growing at a faster pace. Higher profits in Chinese industrial companies at the beginning of the year are expected to contribute to increased appetite to invest among companies. At the same time, the government has updated its five-year plan with the aim of tightening regulation and supervision of the country's business community. A new framework was implemented after the government tightened regulations and scrutinised companies in internet and technology-related sectors in recent months. The stricter scrutiny of companies has weighed on investor confidence.

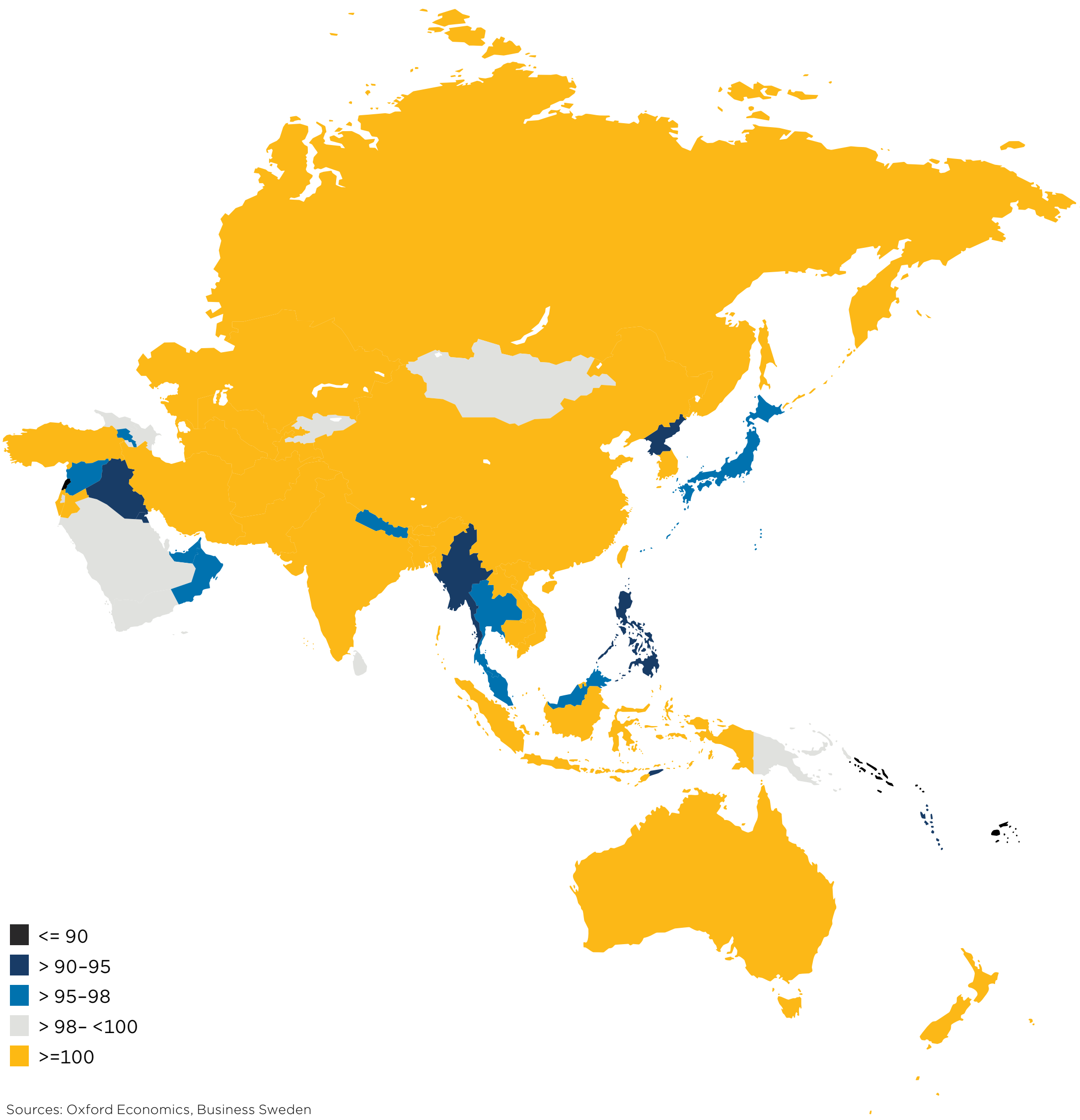
As a result of the weaker economic development, China's central bank lowered its reserve requirements by half a per cent in July, which is expected to release liquidity equivalent to about one per cent of GDP. The probability of further reductions in reserve requirements has increased due to the weak development in recent months. Chinese growth is expected to be driven by increased private investment and strong exports, while China's strategy to stop the spread of infection hampers private consumption. Overall, we expect GDP to grow by 8.4 per cent this year and 5.8 per cent next year.

Japan. The spread of infection has escalated during the summer and the government has declared a state of emergency in several large cities. The spread of infection reached its peak in August and has since fallen back to low levels. The vaccination process is advancing and, in August, approximately 45 per cent of the population were fully vaccinated. GDP growth increased sharply at the end of last year but fell temporarily in early 2021 due to recurring virus outbreaks. Since then, the economy has continued to recover and GDP is now around two per cent lower than before the onset of the pandemic. Growth in the Japanese economy is mainly driven by exports and investments. However, the increased spread of infection and concerns among households is expected to weigh on consumption in the near future, and then shift into higher gear towards the end of the year. Meanwhile, a strong manufacturing sector, fuelled by strong global demand for electronics products and expansive financial conditions[1], is contributing to economic activity in the country. However, the semiconductor shortage poses a risk, especially for Japan's automotive industry. Confidence indicators such as the purchasing managers' index show a clear division in the economy with an expanding manufacturing sector and a services sector making a negative contribution to the economy. The gap between the two sectors has widened markedly recently, which is reflected in the purchasing managers' index for the services sector, which fell to 43.5 in August, while the index for manufacturing remains at 52.4. This year, exports are largely having a positive impact on GDP development, while investments will be an important driving force for GDP growth next year. In total, GDP is expected to increase by 2.3 per cent this year and 2.9 per cent in 2022.

[1] Financial conditions is a broad term that is often used to summarise the situation in financial markets and the interest rates, prices and conditions that households and companies encounter when they need to borrow or invest capital.

India. India has been hard-hit by coronavirus and infection rates escalated again during the spring at a rapid pace, and then dropped to low levels where they have remained since summer. The Indian economy was affected by tightened restrictions and local shutdowns in the spring. GDP was back at pre-crisis level already last year, but after the shutdowns of the spring months, GDP fell sharply again and is still 10 per cent below the pre-crisis level. Given the low vaccination coverage with just around 10 per cent of the population being fully vaccinated, the pandemic continues to pose a major risk to India's economic development. As a result of the increased spread of infection in spring, unemployment rose by about 6 percentage points and peaked at 12 per cent in May. Since then, unemployment has fallen to 8.3 per cent in August, which is slightly higher than the pre-pandemic level. Despite an improving labour market, the surge of infections left its mark on consumption and household confidence, which has plummeted to a rock-bottom level. Industrial production fell by approximately 25 per cent during the second infection wave in the spring, but has since recovered around half of the drop. The purchasing managers' index for the manufacturing sector reached 52.3 in August, which indicates weak growth. The purchasing managers' index for the services sector continues to rise, measuring 56.7 in August, which indicates a faster recovery in the services sector. GDP growth is expected to be driven by strong domestic demand, with investment increasing at a faster pace than private consumption both this year and next. As a result of strong domestic demand, imports are expected to be particularly robust both this year and next, which means that net exports make a negative contribution to GDP. Overall, GDP is expected to increase by 8.8 per cent in 2021 and 7.1 per cent in 2022 after a 7.0 per cent drop last year.

ECONOMIC RECOVERY RATE, GDP 2021 COMPARED TO 2019, CONSTANT PRICES, PER CENT



Sources: Oxford Economics, Business Sweden

APPENDIX

COUNTRY	Swedish goods exports, current prices			GDP growth, constant prices, %			Inflation, %
	Exports 2020, SEK bn	Change 2019–2020, %	Share of Swedish exports 2020, %	2020	2021f	2022f	2020
Europa							
Sweden				-2.9	4.4	3.5	0.5
Czech Republic	11.3	-11.9	0.8	-5.8	3.1	4.9	3.2
Denmark	108.3	2.9	7.6	-2.1	3.2	3.5	0.4
Estonia	11.4	-12.4	0.8	-2.6	8.8	4.7	-0.6
Finland	100.6	-7.6	7.1	-2.9	3.1	2.2	0.3
France	58.3	-5.1	4.1	-8.0	6.3	4.3	0.5
Germany	151.3	-4.9	10.6	-4.9	2.9	4.6	0.5
Italy	38.4	-7.8	2.7	-8.9	6.1	4.4	-0.1
Latvia	5.6	5.3	0.4	-3.6	2.9	4.5	0.2
Lithuania	9.4	-13.7	0.7	-0.8	4.9	3.9	1.2
Norway	152.2	-6.4	10.7	-1.3	3.3	3.8	1.3
Poland	48.0	-2.7	3.4	-2.7	5.0	5.4	3.4
Russia	18.6	-14.9	1.3	-3.0	4.5	2.8	3.4
Spain	26.1	-13.7	1.8	-10.8	6.5	5.8	-0.3
The Netherlands	73.7	-7.5	5.2	-3.8	3.6	3.3	1.3
United Kingdom	73.4	-10.4	5.2	-9.8	7.2	6.1	0.9
Americas							
Brazil	10.0	5.9	0.7	-4.4	5.7	2.1	3.2
Chile	3.0	-19.5	0.2	-6.0	8.7	2.6	3.0
Colombia	1.1	-13.9	0.1	-6.8	7.5	4.1	2.5
Canada	10.4	-10.3	0.7	-5.3	6.7	3.9	0.7
Mexico	5.7	-22.6	0.4	-8.5	6.5	3.0	3.4
USA	120.7	-0.1	8.5	-3.4	6.1	4.8	1.2
Asia and Oceania							
Australia	16.1	-8.5	1.1	-2.4	3.8	3.4	0.9
China	78.3	9.4	5.5	2.3	8.4	5.8	2.5
India	9.7	-24.0	0.7	-7.0	8.8	7.1	6.6
Indonesia	2.8	-22.1	0.2	-2.1	3.3	6.9	2.0
Japan	23.1	-7.6	1.6	-4.7	2.3	2.9	0.0
Malaysia	2.6	-18.6	0.2	-5.6	3.6	6.7	-1.1
South Korea	14.3	1.9	1.0	-0.9	4.1	3.5	0.5
Thailand	5.5	20.1	0.4	-6.1	1.8	6.0	-0.8
Taiwan	5.3	9.5	0.4	3.1	6.4	2.9	-0.2
Vietnam	2.0	5.7	0.1	2.9	6.6	7.8	3.2
Middle East, Turkey and Africa							
Saudi Arabia	9.6	8.2	0.7	-4.1	2.2	4.7	3.4
South Africa	6.5	-22.9	0.5	-7.0	3.8	2.5	3.3
Turkey	14.8	12.7	1.0	1.8	7.0	2.2	12.3
United Arab Emirates	8.9	1.3	0.6	-6.1	1.7	6.5	-2.1

Sources: Oxford Economics, Statistics Sweden, Business Sweden (2021)

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