Global Macro Forecast

The trade tariff threat

- World economy still on track for a soft landing with decent growth and further inflation decline...
- ...but one wrong turn in the trade conflict or the geopolitical arena risks derailing the recovery
- Economic policy uncertainty and structural weakness dampen the outlook, particularly for Europe

Macro Research • Global Macro Forecast

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Global backdrop

The outlook rests on shaky ground

We forecast another couple of years of average global GDP growth. Under the bonnet, however, there is notable divergence among economies, with a likely trade conflict escalation, particularly between the US and China, hurting growth while fanning inflation. Growth will slow in these two mega economies, while we forecast a pickup in Europe despite a range of challenges that are putting the brakes on GDP. Regional divergence implies regional differences in monetary policy - restrictive policy rates in the US, the UK and Norway, and normalising rates in the eurozone and Sweden, while China is loosening its policy stance. Heightened geopolitical risks and economic policy uncertainties mean a larger-than-usual probability that our forecast could miss the mark.

Economy shored up, but a decent growth outlook is not a done deal

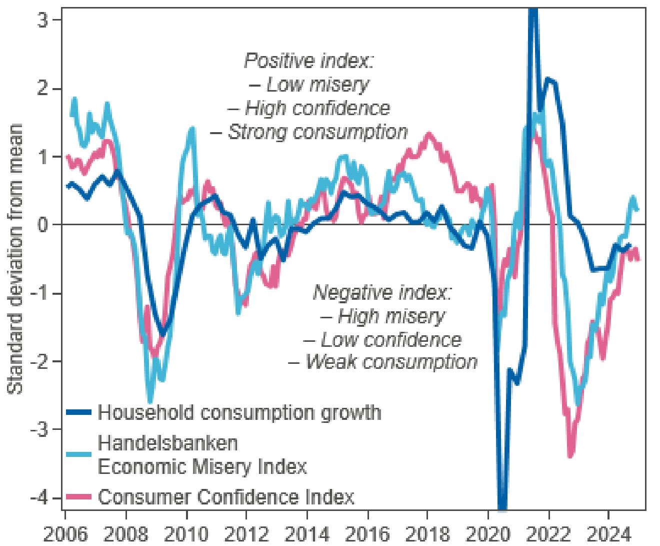
Sentiment slump over; 2025 outlook is shored up for now after central banks and Beijing added support

Leading indicators for global growth are picking up, marking an end to the H2 2024 slump seen in, not least, economic sentiment indicators like the PMI (see graph below). Admittedly, the level of key indicators remains average, but that bodes well for stable GDP growth in H1 2025 – a clear upgrade from the rumbling growth worries of last summer. Thus, it appears the swift actions from central banks have worked and are keeping the economy on track for a soft landing, as we had forecast in our previous GMF edition *Monetary policy endgame: Rate cuts to seal the soft-landing win*. The stabilisation of the 2025 global outlook also owes much to Beijing's efforts to shore up its troubled economy with a host of measures. These are showing early signs of some positive impact on Chinese growth, but additional stimulus is needed and has been signalled by the government.

Leading indicators for global growth slowly improving

Sources: Macrobond, OECD, S&P Global, C. Baumeister et al. and Handelsbanken

Faded economic misery to boost household consumption



Sources: Macrobond, national sources and Handelsbanken

Note: Graph shows common signal in data from the eurozone, Norway, Sweden, the UK and the US

Strengthening of household finances to usher in new growth impetus ahead

We expect consumption to drive growth thanks to the continued strengthening of household finances. Our economic misery indices[1] have kept improving and, on average, indicate a better household economic situation than normal due to factors like solid real wage growth, a pickup in asset prices and policy rate cuts. However, despite this vast improvement from the doldrums of 2022, consumer confidence surveys have shown trembling sentiment and, so far, consumption has not risen in line with its normal relationship with misery declines. This is mirrored in somewhat elevated saving rates in many economies, as income growth has outstripped the lacklustre consumption growth. Looking ahead, we expect accelerating consumption growth to partly close the gap. Still, we assume that it will take time before household saving rates are fully normalised, partly due to caution in the face of uncertainty and risks. One exception is the US, where consumption took off earlier and where the currently low saving rate is forecast to rise, contributing to cooling consumption.

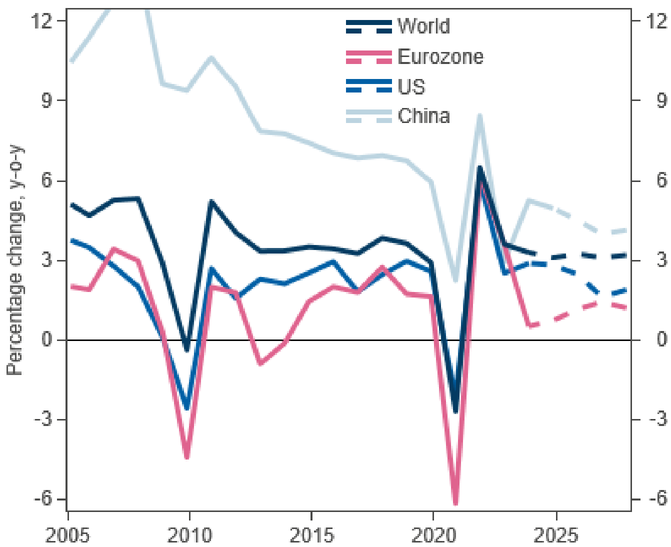
Trump victory adds to uncertainty and risks...

For our forecast period 2025–27, both geopolitics and economic policy are sources of the uncertainty and risks that households, businesses and markets will experience. Donald Trump's second US presidential election win adds to this, particularly given the threat of trade conflict[2] . We assume a limited conflict escalation in our main scenario, but with risks leaning towards worse outcomes – see the *Risks to the outlook* box below and our theme article *The trade tariff threat*.

...but is for the short term forecast to deliver a net boost to growth

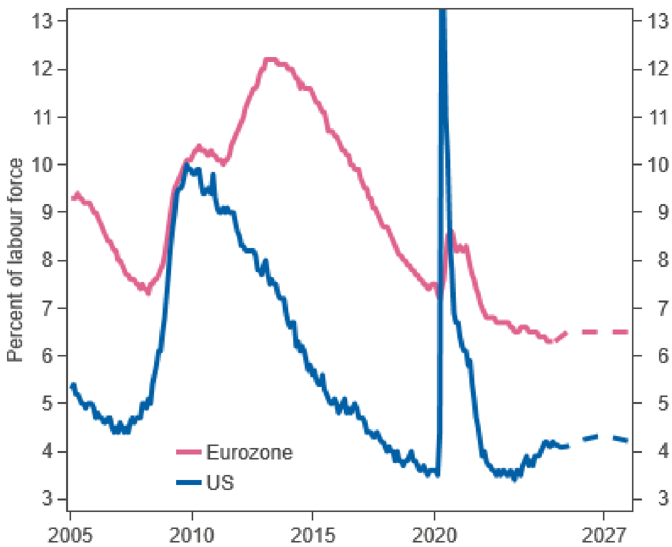
However, at face value, Trump's win is forecast to be a net positive for 2025, because his government looks set to deliver an extension to this year's expiring temporary tax cuts as well as a range of deregulation measures – both supporting economic sentiment. This will boost household consumption and business fixed investment, and will spill over to export orders in the rest of the world. All told, we forecast global GDP will rise by 3.2 percent in 2025, followed by a still lacklustre 3.1–3.2 percent in 2026–27 as China and the US decelerate – partly due to the somewhat negative effect from our baseline assumption of a limited trade conflict escalation – and the eurozone recovers. For more on the growth outlook, refer to the *Major economies overview* box below.

Global GDP forecasts



Sources: Macrobond, IMF and Handelsbanken

Global unemployment forecasts



Sources: Macrobond, BLS, Eurostat and Handelsbanken

Labour market will stay strong

Baseline soft-landing scenario suggests a slight rise in unemployment

We expect labour markets in general to remain tight, albeit with considerable heterogeneity among sectors and countries, and forecast only a gradual cooling. Admittedly, the ratio of vacancies to unemployed will continue to decline, implying that excess labour demand has diminished, making it more difficult to find work in certain sectors and regions. Nevertheless, we expect the rise in unemployment to be mild. In the US, higher unemployment will be caused by the slowing economy's decreasing demand for labour, while in the eurozone, the driver is businesses raising the resource utilisation level among the staff that have been hoarded in recent weak years, as we judge that a focus on productivity gains is needed to contain costs and maintain profitability in the coming recovery.

Inflation still too high but should hit target sooner or later

Slow journey to inflation targets, partly due to normal lagging effects...

With the exception of China, underlying inflation remains stubbornly above central banks' target in the economies under our coverage. And now, the most recent leading indicators, such as survey pricing plans (see graph below), show signs of a new pickup in inflation. We continue to forecast that inflation is headed to target, but stress that the journey will take time to complete as the fallout of the 2021–23 inflation crisis is decaying slowly. One explanation is that second-round effects[3] are still present. Firstly, several economies and business sectors still face elevated labour cost increases that are subsequently passed on to consumer prices, which are then compounded in some sectors by a lingering need to compensate for previous margin compression. Secondly, households still want to claw back lost purchasing power by demanding higher wage increases. Lastly, administrative prices and contractual fees are rising further, as they are often lagging in nature or even indexed to historical inflation rates.

...and partly due to lingering behavioural change

Another explanation for the slow decay of the inflation crisis is that the associated behavioural change and reborn inflation attention are not proven to have been restored to pre-crisis conditions – "normalised" as some call it. This can be traced in factors like:

• The stubborn disconnect in historically tight correlations between, on the one hand, pricing plans and profit margins (still high overall), and, on the other hand, business cycle gauges (in many cases low).

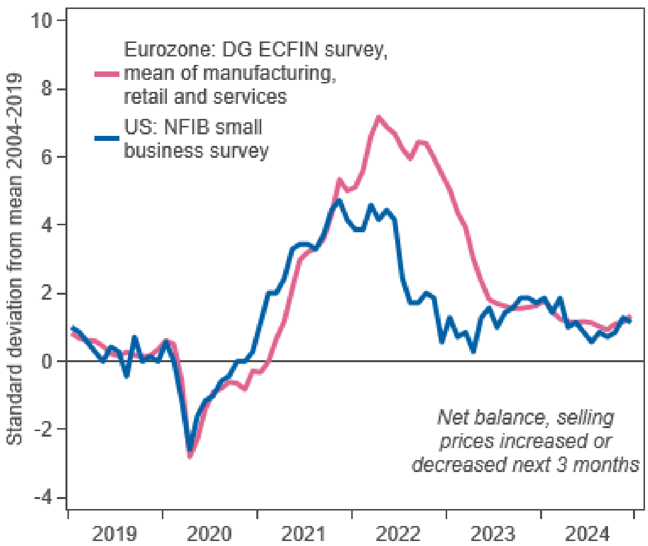
• The wedge between household inflation expectations (high) and inflation metrics like CPI outcomes (more normal).

• The lingering upside skew in market-based inflation risk measures.

Still, progress is ongoing and inflation is expected to reach target despite tariff challenges

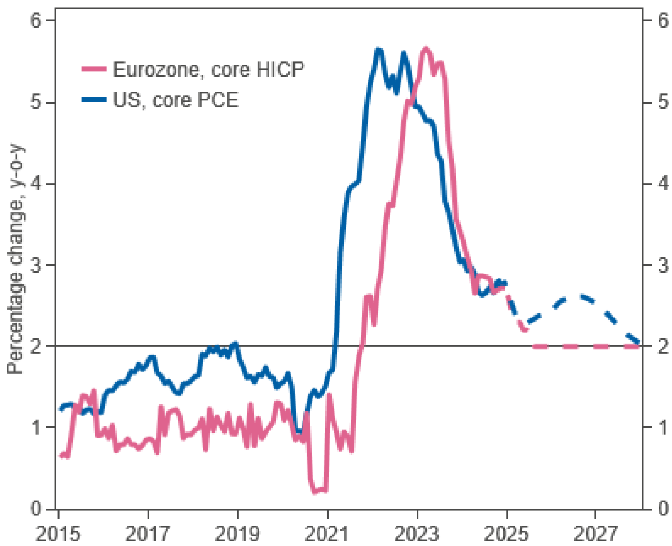
All told, there has still been some progress in solving the Gordian knot of disinflation[4] and as demand normalises, the labour market cools and inflation second-round effects abate, we forecast inflation will return to target (see graph below). Our baseline assumption for a mild trade conflict escalation implies merely a slight upward impact on inflation, but we argue that the risk of larger effects is severe in an adverse tariff scenario (see theme article *The trade tariff threat*).

Pricing plans remain higher than pre-pandemic average



Sources: Macrobond, European Commission, NFIB and Handelsbanken

Global underlying inflation forecasts



Sources: Macrobond, BEA, Eurostat and Handelsbanken

Major economies overview

Eurozone – Refer to the *Eurozone* article later in this report and the theme article about the key drivers of the region's medium-term growth.

China

• GDP growth is forecast to continue its downward trend 2025–27. The recent growth lift from export-led manufacturing production is expected to fade when it clashes with the higher US tariffs we assume. Consumption growth is weak and not ready to take over the GDP growth baton, as consumer confidence remains depressed even after Beijing's latest round of stimulus in H2 2024.
• Policymakers are signalling that further stimulus is coming. We expect the PBOC to imminently cut policy rates again. So far, the multi-tool monetary policy loosening has been insufficient to jolt the economy, but lower interest rates and improved liquidity have helped halt the housing price slide, mitigating households' wealth worries, and have boosted some fixed investment categories.
• The next step is fiscal policy measures that support households and boost confidence. A large stimulus budget is expected and the key event is the National People's Congress which kicks off on 5 March. The challenges are sizeable, however, with the heavily indebted real estate sector and the negative demographic trend weighing on the economy.

USA

• The US economy has powered on, but looking ahead, GDP growth faces some decisive events and headwinds. Returning president, Donald Trump, is is expected to raise tariff rises on imports from strategic rival China and, to some extent, other trade partners, thus hurting growth. A hard migration policy clampdown is another blow to growth. However, the new government is expected to extend the temporary tax cuts that expire this year and introduce growth-friendly deregulation.
• Consumption growth is forecast to slow from high levels despite healthy income growth, since the household saving rate is expected to rise to more normal levels. Business sector confidence has shot up, and we forecast fixed investments will hold up well in the short term, before the negative sides to government policies become more visible and dampen investment spending.
• US underlying inflation remains too high and will be fanned by both tariffs and the signalled expansionary fiscal policy. We expect the Fed will cut its policy rate slowly, but by more that the market is currently pricing in. In H1 2025, we see two cuts to safeguard the economic stabilisation achieved through its H2 2024 actions, before pausing when tariff policies come into effect.

Policy rate divergence and risk premia drive interest rates

Even after the initial rounds of cuts, the policy rate level remains restrictive in most economies, at least when compared with our assumptions for the medium-term neutral policy rate[5]. The short-term perspective, however, is another matter entirely, and we forecast regional economic divergence will drive differences in central bank policy action.

Regional economic divergence to drive regional differences in central bank policy

Some central banks are set to cut rates only gradually as the inflationary environment warrants caution – the Federal Reserve due to the US's strong GDP and procyclical fiscal policy, as well as the Bank of England and Norges Bank due to sticky inflation. For other central banks, we judge that the path to normalise policy to neutral is already cleared – the ECB and the Riksbank due to weak GDP (see graph below). In China, we expect the PBOC to loosen its policy stance.

Only gradual cuts by the Fed, BoE and Norges Bank, while the ECB and Riksbank normalise the policy rate

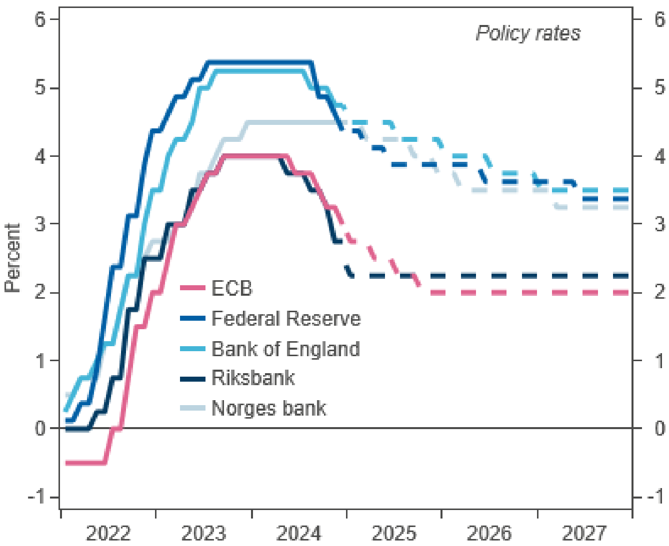
In isolation, the *direct* macroeconomic effect of the tariff increases in our baseline case is a small matter for most central banks, but two notable exceptions are global majors: the US Fed is forecast to counter the somewhat inflationary fallout by cutting the policy rate less than would have been the case without tariff rises, while China's PBOC will lean the other way to mitigate the negative GDP impact. The *indirect* effects of the expected trade conflict escalation are, however, top of the agenda for central banks. Firstly, in terms of a preparedness for adverse conflict scenarios that could cause a much larger inflationary impulse ahead (see theme article *The trade tariff threat*). Secondly, the recent surge in longer market interest rates is driven by rising inflation expectations,

Mild tariff baseline implies small impact on monetary policy, but the risks are large and by an even more significant rise in the term premium, which in turn has partly been lifted by inflation risk – factors showing that central banks already need be on guard against the present inflation dynamics.[6] Lastly, the term premium has also been driven by risks to growth and public finances, reflecting both the worst-case stagflationary trade conflict scenarios ahead and the broader geopolitical and economic policy uncertainty and risks, we judge.

Long rates to decline slowly, but remain significantly higher than last decade

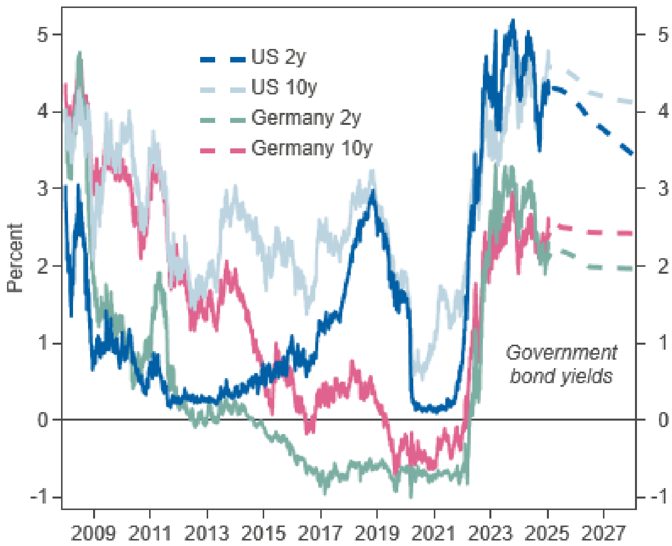
Overall, our forecast for longer-term market interest rates sees a gradual decline ahead, driven by the expected central bank cuts and a decrease in the term premium (see graph below). The latter is expected to play out slowly, as uncertainty and risk dissipate, and we gradually gain clarity on the outlook for growth, inflation and government borrowing needs (fiscal policy), partly through the new US government's policy announcements, but also developments in the assumed mild trade conflict escalation, and proof of the orderly resolution of economic worries in China and the eurozone, respectively. Towards the end of 2027 (the end of our forecast period), we expect longer-term market interest rates to remain significantly higher than in the last decade, mainly due to higher neutral interest rates, but also due to a higher term premium.

Central bank policy stances divergent ahead



Sources: Macrobond, Bank of England, Federal Reserve, ECB, Norges Bank, Riksbank and Handelsbanken

Long bond yield forecasts



Sources: Macrobond and Handelsbanken

USD to stay strong despite gradual weakening in 2026-27

Balance of key drivers makes for a finely poised EUR/USD outlook

After a sharp strengthening of the dollar, the balance of key drivers now makes for a finely poised EUR/USD outlook, so our forecast is for the currency cross to trade sideways, oscillating around 1.03 until H2 2025. We expect this to be followed by a very gradual weakening of the USD, reaching 1.08 at year-end 2027, which is still well below our estimate of a long-term EUR/USD equilibrium at 1.18.

Several factors favour a weaker dollar...

Several factors favour a weaker dollar and stronger euro (EUR/USD up):
• Currently elevated global uncertainty dissipates gradually towards mid-2026, bolstering risk appetite in the FX market, in favour of the euro (see also interest rate section).
• Our baseline assumption of limited trade conflict escalation implies greater net dollar sell pressure than is currently priced in by the market, as US imports decrease less than suggested by severe scenarios.
• The US interest rate level declines, alleviating the risk of a global economy hard-landing and thus the FX market's risk aversion, which has been driving dollar strength in the last couple of years.

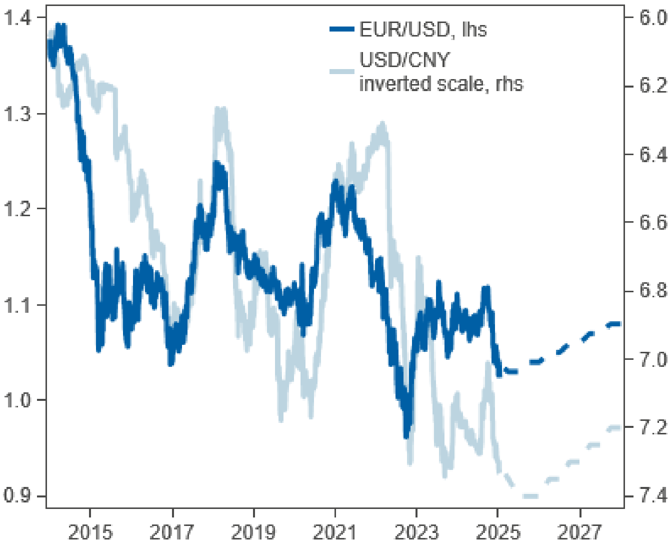
...but others work in the opposite direction

But other factors favour the opposite (EUR/USD down):
• The US economy's exceptionalism with high growth, not least compared to the sluggish eurozone performance, continues particularly during the first part of our forecast period.
• Interest rate differentials widen in 2025, as ECB policy rate cuts are faster than the Fed's.

Our forecasts for other key global currencies include a short-term weakening of the Chinese yuan, which helps soften the tariff rise blow to exports (see graph below), and a gradual strengthening of the Japanese yen due to some policy rate hikes by the Bank of Japan.

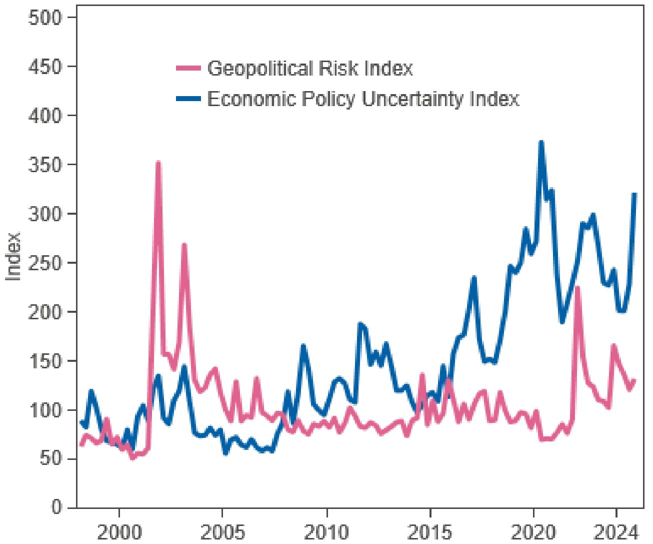
Significant movements also likely in other key global currencies

Dollar to eventually weaken, but only somewhat



Sources: Macrobond and Handelsbanken

Geopolitical and economic policy uncertainty on the rise



Sources: Macrobond, Caldara and Iacoviello (2021), Economic Policy Uncertainty and Handelsbanken

Risks to the outlook: Still tilted to the downside

We assess that the risks to the economy remain tilted to the downside. While the immediate risk of a hard-landing for the world economy has decreased since our September report, the surge in trade conflict risk means that the overall balance of risks remains negative. In addition, uncertainty in the geopolitical and economic policy arenas is heightened, and all told, there is a larger-than-usual probability that our baseline forecast proves to be wide of the mark. Select risks include:

• On the downside, we judge the trade conflict escalation risks to be tilted to worse outcomes (see theme article *The trade tariff threat*). Furthermore, inflation risks are still present and could interact with the tariff risk and create a marked setback in the progress towards central banks' inflation targets, which could cause renewed policy rate hikes and an economic hard landing. Any negative geopolitical and economic policy surprises risk being accentuated by negative reactions in financial markets, which are not pricing in the current tail risks (see graph above).[7]

• On the upside, household consumption could pick up more than forecast if the saving rate comes down to a more normal level, following already improved household finances and a confidence boost as the world economy stays on track for a soft landing.

• Lastly, there are factors that pose upside as well as downside risks. We assume that geopolitical tensions and geo-economic fragmentation deteriorate somewhat in our trade conflict escalation baseline, but given the plethora of pressure points around the world, there is room for both improvement and deterioration. Furthermore, business and household confidence effects are difficult to predict, but have the potential to compound the effect of economic uncertainty changes.

Theme article - Global tariff scenarios

The trade tariff threat - hurting growth, stoking inflation, and creating risks

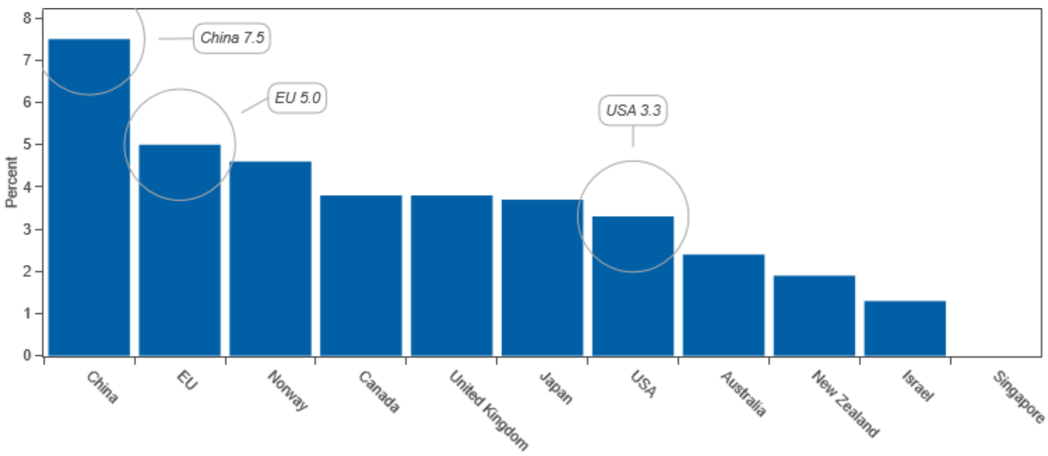
The trade conflict outlook for 2025 is highly uncertain, and even more so for 2026-27, the latter years in our forecast period, with vast uncertainty on a range of aspects including possible US actions, global response and the ensuing macroeconomic impact. We assume a limited trade conflict escalation in our main scenario, but with risks leaning towards worse outcomes. Our main scenario is based on the US raising sweeping tariffs against China but only targeted tariffs against other countries, with a limited response expected in return. The consequences of this scenario are slightly lower global GDP, with a marginally more negative effect on the US and China, and slightly higher inflation, mainly in the US, resulting in the Federal Reserve cutting interest rates at a slower pace.

Limited escalation is our baseline, risks tilted to worse outcomes

The trade conflict outlook for 2025 is highly uncertain, and even more so for 2026–27, the latter years in our forecast period. There is vast uncertainty on a range of aspects: (i) what tariff increases and other trade barriers the US will actually impose with president Donald Trump at the helm. (ii) how the rest of the world will respond (or perhaps more appropriately "retaliate") to US measures, (iii) and the macroeconomic fallout from the conflict escalation, not least if threats of seldom-experienced universal – rather than targeted tariff increases – are realised. Moreover, this comes at a time when: (i) the global economy is still struggling with the tail end of an inflation crisis marked by behavioural change among economic agents. (ii) the potential use of geostrategic trade barriers could disrupt supply chains for a second time in just a few years.

Multifaceted uncertainty around the trade conflict outlook: US actions, rest-of-the-world response, and macroeconomic impact, to name the key concerns

Global tariffs



Source: World Trade Organisation
Note: Simple average tariff levels.

US tariffs somewhat lower than those of many trading partners

Faced with the uncertainty around the trade conflict outlook, we have drawn three key conclusions. Firstly, our baseline assumption for this edition of our GMF is a scenario of limited trade conflict escalation. So, despite no escalation having (as yet) been formally announced in 2025, we choose not to work under the forecasting handbook's standard "current policy" assumption. Secondly, we need to be highly attentive to future developments that could trigger alternative scenarios and hence a need to revise our macroeconomic forecasts. Lastly, it is important to underscore that we view the risks as being tilted to worse trade conflict outcomes, with severe escalation sending more stagflationary impulses into the world economy. These conclusions follow from:

Limited trade conflict escalation baseline, highly attentive to alternative scenario triggers, and risks tilted to worse outcomes because...

...the range of escalation possibilities is much larger than for de-escalation

• The shear potential for an escalation is very large, while the likelihood of a de-escalation is limited from today's starting point. In other words, given that the US is starting a new political trade conflict game, the world economy has much to lose but little to gain as outcomes worse than those outlined in our baseline scenario dominate in the range of plausible outcomes. A simple illustration is that advanced economies could raise tariff rates by double-digit percentage points, but only have the possibility of cutting them by low single digits.

• Trump has threatened to use tariffs as a policy lever to achieve several types of political goals other than the conventional goal of levelling the trade playing field and protecting strategic industries. This implies a risk of surprise tariff increases outside our conflict framework.

Unconventional use of tariffs to achieve range of political goals

• History suggests that it is a quicker process to raise tariffs and trade barriers than it is dismantling them. This adds to the adverse risks, and thus the message from representatives at the White House – such as Treasury Secretary nominee Scott Bessent – that Trump's strategy could be described as "escalate to de-escalate" is likely to be cold comfort.

Trade barriers are quick to raise, but slow to dismantle

Tracking the trade conflict scenarios in coming years

The trade conflict is a complex political game with a plethora of possible outcomes, so we simplify it into a decision tree structure to help define a set of rough alternative scenarios (see illustration below). The decision tree should also help us judge whether or not trade conflict developments are tracking our baseline scenario. For the purpose of analysing the trade conflict in 2025, three stylised decision rounds in the game are incorporated into our tree:

A decision tree to flesh out rough scenarios in the complex political game of trade tariffs

1. For 2025, we assume a one in three probability that Trump's first step in tariff increases on goods from China turns out to be relatively small, e.g. up to 20% (from today's 14%) compared to his common threat of an average tariff of 60%. A medium-sized initial increase in US tariffs on China together with small, targeted tariff rises on some select rest of the world (ROW) economies (one in three probability) could also be compatible with our limited escalation baseline, but increases the risk of a worse end-result scenario. Lastly, we also assume a one in six probability of a large initial step-up in US tariffs on China, e.g. straight to 30%. This strong signal that a more adverse scenario than our baseline will materialise would also include president Trump making it a top priority to raise tariffs for a broad set of European, Asian and/or North American trading partners. Note that part from these three stylised round-one outcomes, there are also large tail risks at both ends.

We expect the US to raise tariffs on China, and other nations

2. In the second round, the world responds to the initial step made by the US. We are uncertain whether China and the ROW are more likely to respond with tariff increases closer to the level set by the US, or whether they will respond with significantly softer measures. We attribute a marginally higher probability to the former in this early stage of the trade conflict game. Experts and pundits disagree on this issue and many countries are keeping their cards close to their chests, so we should prepare for surprises. However, in our view, retaliation through tariff increases bigger than the US measures is merely a tail risk.

The world's response is uncertain and could surprise

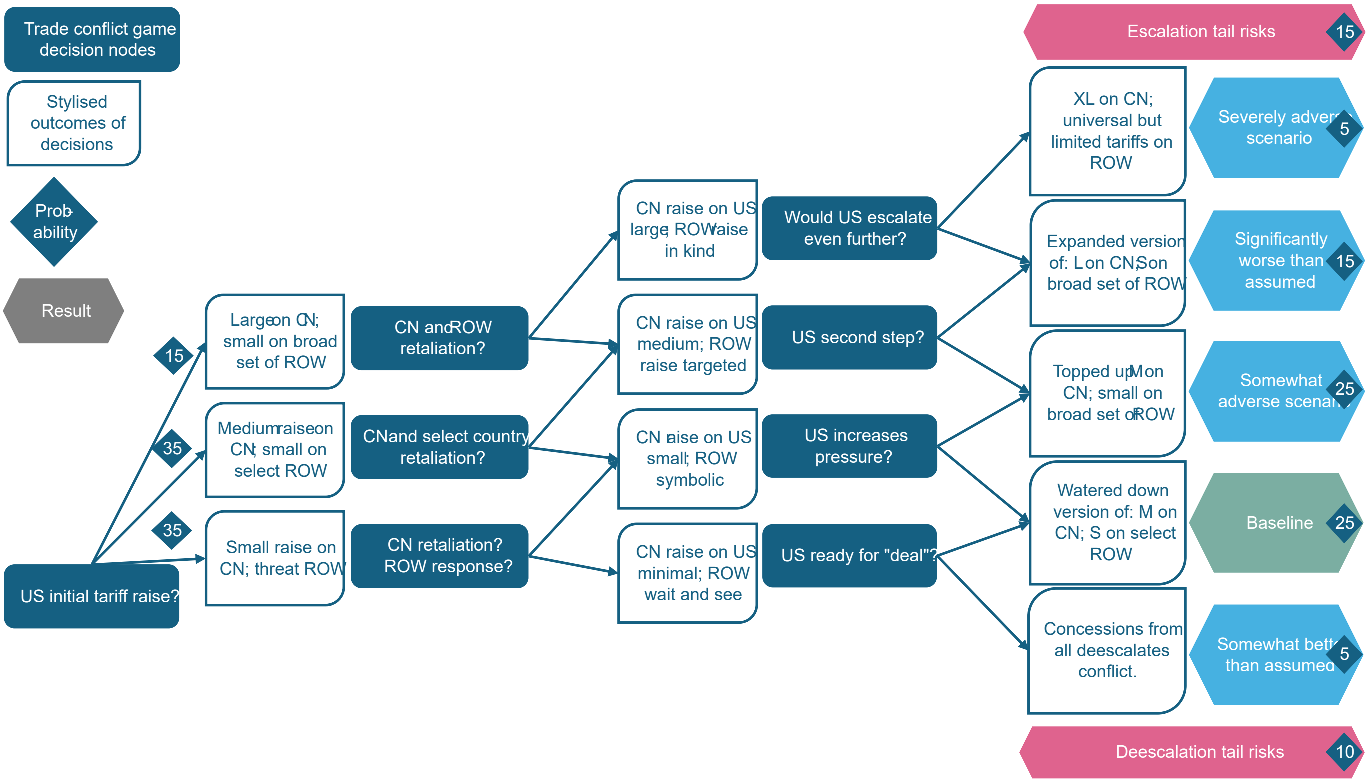
3. The skew towards further escalation remains in the third round of our trade conflict illustration when the US decides on additional measures. We note, however, that opportunities to reach agreements that could halt the escalation or even achieve some de-escalation are also on the agenda. By this time, the conflict could plausibly also have reached a stage where the US imposes a universal import tariff – a lower probability alternative scenario, but with a large negative impact on the world economy, see box *Macroeconomic effects of tariff increases according to the Fed*.

The US may implement additional steps, but could also halt the escalation

All told, the decision tree analysis of these early rounds of the expected trade conflict game indicates a roughly 25% probability of our limited escalation baseline materialising, with a watered down medium-sized tariff rise on China and smaller tariff rises imposed on select ROW economies. Note that our analysis attributes an *overall* higher likelihood of the adverse scenarios, but our view is that it is premature to adopt it as a baseline assumption, since such a scenario lies several economically detrimental decisions away. Hence, we offer policymakers the benefit of the doubt for now, with a message to hope for the best but prepare for the worst.

A 25% probability rate that our benign baseline scenario is correct

Illustration of trade conflict game decision tree 2025



Source: Handelsbanken

Note: Tail risks are not shown in the initial decision round, just three stylised scenarios, hence the probabilities do not add up to 100. ROW refers to rest of the world economies.

Baseline suggests little economic pain but adverse scenarios imply big risk

If conflict escalation is contained, growth will only be slightly slower...

Given our baseline scenario of limited trade conflict escalation, we forecast that global GDP will be 0.2 percent lower in 2027. In the short term, we expect GDP to be dampened primarily by consumption and fixed investments as households and businesses cut back on spending owing to the higher cost of imports. The medium- to long-term blow results from lower potential GDP caused by the productivity-hostile efficiency loss when global trade growth slows (see details box *Macroeconomic effects of tariff increases*). The tariff hikes are self-inflicted wounds for the US economy, which will initially see its own GDP impacted more than global GDP – an impact of -0.4 percent by 2026, albeit reverting to -0.3 percent in 2027. We also assume that China will impose smaller tariff increases, so the conflict escalation is likely to be less of a shock in the beginning, but over time the export-oriented Chinese economy will also suffer, losing 0.3 percent of GDP by 2027. The eurozone is on the fringe of the baseline conflict, but the blow from slowing global trade means that GDP will be 0.2 percent lower in 2027.

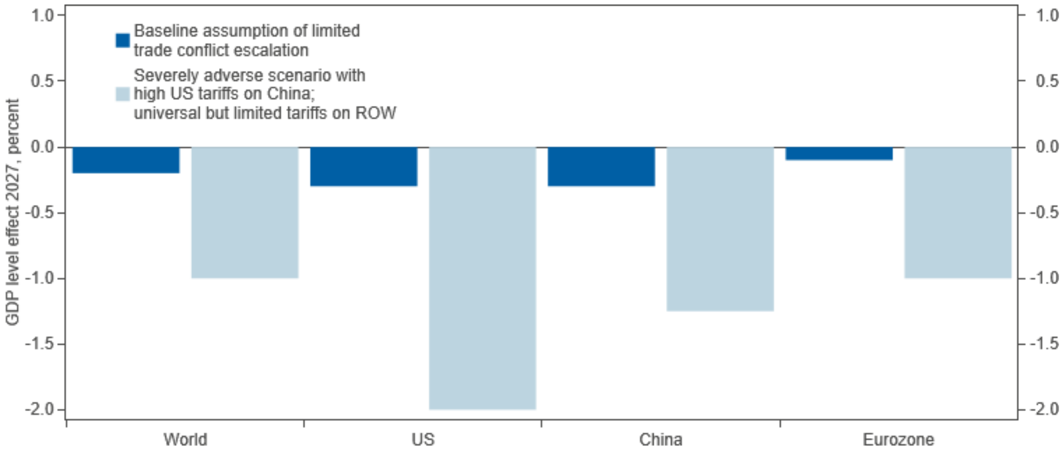
...and the net effect on inflation will be negligible

As the GDP impact illustrates, the tariff hikes result in negative shocks to both supply and demand. In terms of inflation, there is a boost from the cost pressures of the supply shock, mainly in the US, and a drag from the weaker demand. These counterbalancing forces are likely to result in small inflation net effects in our limited trade conflict escalation baseline scenario, albeit negligible on a global scale, we deem. We forecast that the US price level will be 0.2 percent higher in 2027, after inflation is stoked in 2025–26, but slightly dampened in 2027. For the eurozone, we assume only a 0.1 percent higher price level in 2027, partly because the global demand blow will likely hamper commodity prices.

In a severely adverse alternative scenario, the blow is five times larger

The effects will be many times larger if our assumption of a limited trade conflict escalation proves to be too benign. In a severely adverse scenario with universal tariffs, the blow to global GDP is about five times bigger (-1.0 percent in 2027, we judge). Before then, however, it is likely that the US would go into a recession in 2026, all else equal.

GDP effects of trade conflict escalation scenarios



Source: Handelsbanken

Needless to say, all of these estimates are highly uncertain – as evidenced by the variation in researchers' modelling results. One important reason for this is that outcomes will hinge on economic policy responses to the shocks. Two key assumptions in our scenarios:

• Central banks with economies that are significantly exposed to an inflationary effect – in our baseline only the Fed[8] – will respond to counter the initial inflation impulse somewhat by maintaining a tighter policy stance. In our view, the all-too-recent inflation crisis implies that inflation expectations are not anchored securely enough to allow for the central banking playbook's "see through" response to supply shocks, which would have meant policy loosening to mitigate the GDP blow, while treating inflation as transitory.

• Tariff revenue to government coffers will only partly be redistributed to households and businesses by way of fiscal stimulus. In our view, the public finances of most major economies are already in such dire shape, that a full redistribution is unlikely.

Outcomes will hinge on economic policy responses to shocks – We see affected CBs being hawkish, not using playbook see-through tactics, and governments only partly countering the GDP blow

On top of this, potential financial market reactions to the trade conflict escalation could feed back into the real economy and accentuate the macroeconomic effects (see Global backdrop article). All told, the effects outlined in both the baseline and the alternative scenarios could turn out to be larger or smaller for a range of reasons (see box *Macroeconomic effects of tariff increases*).

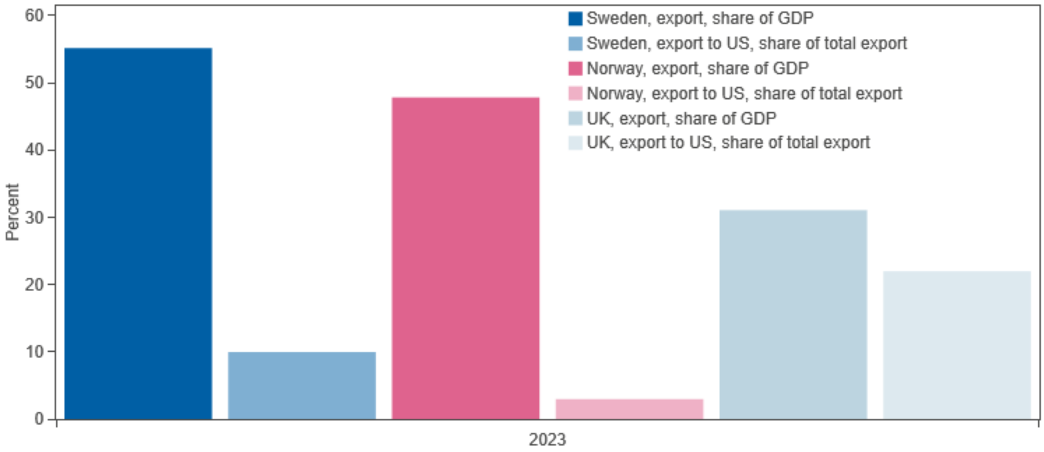
Plenty of additional sources of uncertainty

What about exporting countries like the UK, Norway and Sweden?

The countries that we cover in the most depth, the UK, Norway and Sweden, are all export-oriented economies. Sweden has the highest share of exports (exports as a share of GDP) and Norway the smallest. The UK has, by far, the highest export share to the US, while Norway's exports to the US are only minor. However, it is not just the direct effect that matters. All in all, our baseline scenario assumes that the impact from tariffs will be roughly the same for the eurozone and the UK, but larger in Sweden and smaller in Norway. For the time being, we believe that domestic factors are more important for inflation and monetary policy.

Domestic factors are more important to our baseline case

Export



Sources: Macrobond, National sources and Handelsbanken

United Kingdom

Services form a large proportion of exports

The United Kingdom is an open, globally-oriented economy, which has long been particularly dependent on trade. The danger of tariffs imposed on the UK to its US trade flows are, however, limited; while 22.1 percent of total UK exports go to the US, more than 50 percent of this export are in the form of services that are not directly hit by tariffs.

Forecasts regarding the impact of tariffs vary, but our own estimates see a reduction in growth of 0.1 and 0.2 percentage points, driven by a decline in goods trade and the eventual impact of being dependent on tariff rates and any exemptions. From a sector perspective, fishing and petroleum are likely to be particularly hard hit and key UK industries including, automotive, aerospace, chemicals, and pharmaceuticals will also be affected. Beyond their impact on trade, substantial tariffs would also reduce competition, potentially raising inflation and thus interest rates. If we try to identify alternative markets for UK exporters, the UK government intends to seek a post-Brexit reset with the EU, and has also recently joined to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which holds the prospect of accessing some of the world's fastest-growing markets in South-East Asia.

Norway

It is the indirect effect that matters

As a small, open economy, Norway is highly sensitive to global economic shifts since trade barriers will impact Norwegian exports and the krone exchange rate. Statistics Norway (SSB) has examined various scenarios regarding ways in which the Norwegian economy could be affected by an increase in tariffs. Most scenarios suggest relatively mild effects. In the most severe case – a general increase in US tariffs, retaliation from trade partners, and heightened trade uncertainty – economic activity in Norway could decline by up to 0.4 percent. Inflation would also decrease. In such a scenario, interest rates could be cut by up to 0.6 percentage points, limiting the actual decline in economic activity to around 0.1 percent.

The direct effects are minor, as Norway's export industries are specialised, with oil and gas comprising a significant share of total exports. However, sectors like steel and aluminium could be more vulnerable. Key Norwegian exports to the US include seafood, mineral oil, and metals (excluding iron and steel), but these represent small volumes; only 3 percent of Norway's exports go to the US. By contrast, three-quarters of Norwegian exports go to European countries, with the eurozone accounting for about half. A general trade war between the US and its partners could indirectly affect Norway through trade channels tied to the US, but the negative economic impact would likely be smaller for Norway than for the eurozone.

Sweden

The US is Sweden's third-largest trading partner and a trade war between the US and its partners would directly affect Sweden through trade channels tied to the US. Sweden’s National Board of Trade estimates that a 20 percent tariff imposed on US imports could lead to a 16 percent reduction in Sweden's goods exports to the US. This drop is primarily driven by a sharp reduction in Sweden's exports of motor vehicles and transport equipment, which make up nearly one third of its total exports to the US. Additionally, the pharmaceutical and chemical sector, Sweden's second-largest export category to the US, also contributes to the overall decline. However, the diminished exports to the US could be partially offset by increased trade with other countries. Sweden’s National Board of Trade estimates that the total effect on both export and GDP might be moderate. Sweden’s relatively large exports to the US and the fact that exports are concentrated in certain sectors suggests, however, that the negative economic impact might be slightly larger for Sweden than for the eurozone. At the same time, Sweden has more fiscal space to counteract any negative effects.

Sweden would probably be harder hit than the eurozone, but has bigger buffers if needed

Macroeconomic effects of tariff increases

A significant increase in the universal tariff level is the big threat to the global economy. Targeted tariff increases should be manageable, but there are risks. Based on an analysis by the Federal Reserve, the macroeconomic effects of a US import tariff increase on all non-oil goods of 15pp, to which the rest of the world responds in kind, would be stagflationary and potentially difficult for monetary policy to handle.[9]

Inflation will rise markedly but will be mainly temporary. The channel is a rise in import prices, which the domestic production, wholesale and retail sectors to a large extent passed on to consumers. The tariff rise is a one-time price level change, so its direct effect on inflation is transitory. However, domestic cost pressures will indirectly increase and add some persistent inflation pickup (see below).

GDP and employment hurt, partly due to decreased potential in the economy. The trade balance will be roughly unchanged as both imports and exports are reduced when the US tariff rise is met with an equal response. Household consumption and businesses' fixed investment volumes will be depressed due to the higher costs of imported consumer and capital goods. Furthermore, the lower expected profits lift businesses' capital costs through credit spreads, making investments more expensive. Productivity growth slows down, due to a shift to less efficient domestic production to replace previous imports, with reduced international competition hurting domestic innovation incentives.

Night-and-day monetary policy options: choice depends on inflation expectations. The Fed's analysis suggests the central bank should "see through" the inflation surge and cut its policy rate to mitigate the negative GDP impact. However, the success of this policy option hinges on having firmly anchored inflation expectations, and also relies on the pass-through of cost shocks to be short-lived and limited. Both of these prerequisites can be questioned in today's economy, in the wake of the inflation crisis, we argue. In sharp contrast, the other monetary policy option is to react to inflation and initially tighten significantly. This would lead to a recession, but stops inflation from spiralling through workers raising wage demands and companies raising markups, especially relevant when the labour market is tight (initially) – something we expect for US in 2025, particularly if Trump adds fiscal stimulus.

Eurozone

Soft landing, but growth remains modest

Given easing inflation, we expect the lingering economic ripple effects of pandemic bottlenecks and the energy crisis to normalise in 2025, enabling the ECB to support a consumption-driven recovery. However, we forecast moderate GDP growth due to slow trend growth, still high energy prices and global headwinds. In addition, households - despite real income growth, lower interest rates, and record-low unemployment as companies have hoarded labour - are still hesitant to spend, reflecting continued economic uncertainty. Declining labour costs, supported by improved matching, easing wage demands and improved productivity growth, are key conditions for monetary policy normalisation, and hence the recovery. Risks are tilted to the downside, in particular a more severe tariff scenario.

A moderate acceleration in GDP growth

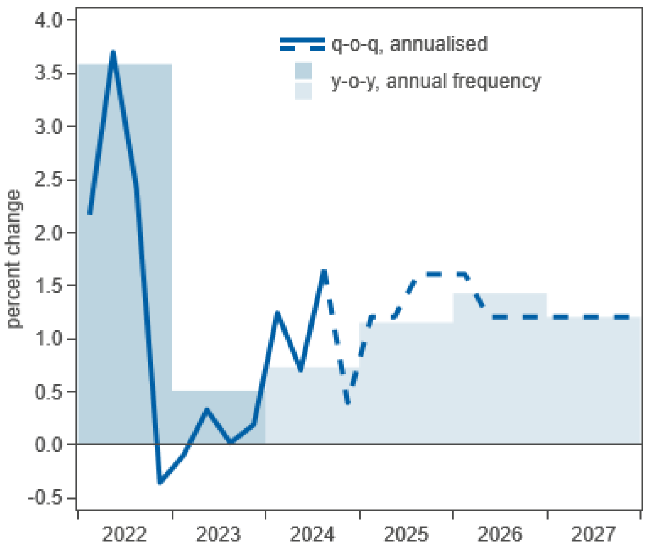
We expect 2025 to be the year when the ripple effects of pandemic-related bottlenecks and the energy crisis normalise. As Inflation gradually eases and stabilises around the target, this will allow the ECB to continue to normalise monetary policy and support a recovery in domestic demand. Our growth expectations remain moderate, however, due to slow trend growth and headwinds from within the eurozone as well as from abroad. This means that GDP growth accelerates from our estimate of 0.7 percent growth last year to 1.2 percent this year, and 1.4 percent in 2026, before easing again to 1.2 percent in 2027.

Easing inflation allows the ECB to support a recovery in domestic demand

Unemployment is currently at a record low and GDP per employed person is unchanged compared to 2019, suggesting that companies have been hoarding labour to avoid bottlenecks as demand gains momentum. Against this backdrop, we expect limited demand for new staff in the short run, and a slight uptick in unemployment, even as growth accelerates.

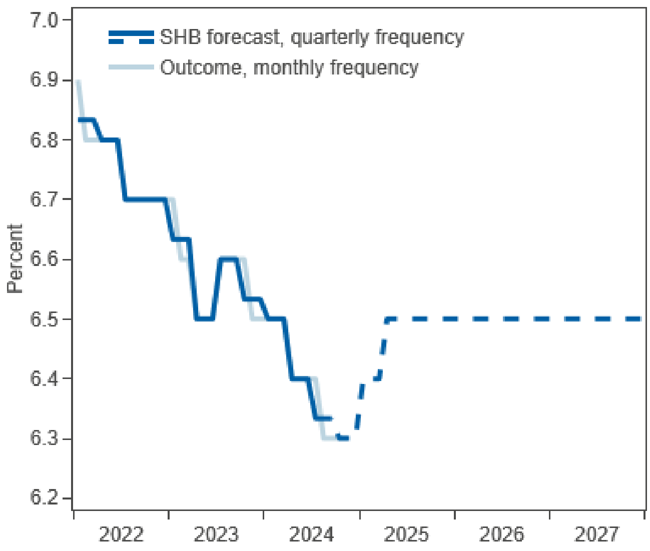
Companies have been hoarding labour to avoid future bottlenecks

GDP forecast



Sources: Eurostat, Macrobond and Handelsbanken

Unemployment forecast



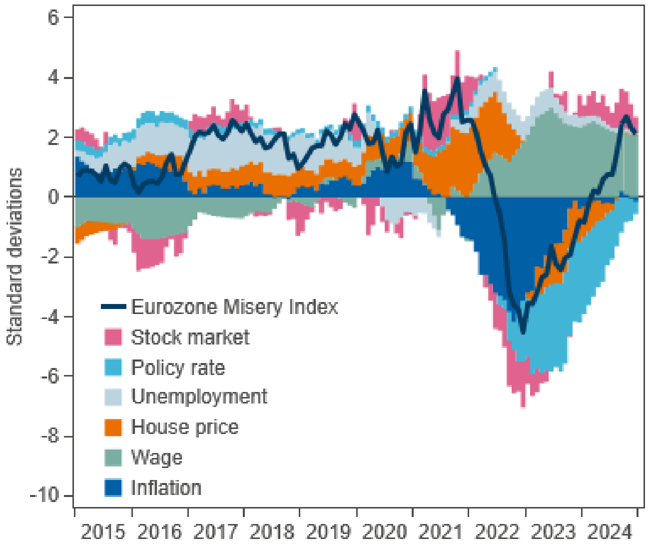
Sources: Eurostat, Macrobond and Handelsbanken

Households are equipped to boost demand

After a period of broad-based stagnation from the end of 2022 and throughout 2023, GDP growth resumed in the first quarter of last year and has added almost one percent to GDP over the first three quarters of 2024, which is close to potential growth. Business confidence remains subdued, however, particularly for manufacturing, which suggests a weak ending to 2024 and a slow start to this year. Nonetheless, the conditions for a household-driven recovery appear to be in place. We expect to see a gradual acceleration in demand, with a peak in quarterly growth rates in the second half of this year and the beginning of 2026.

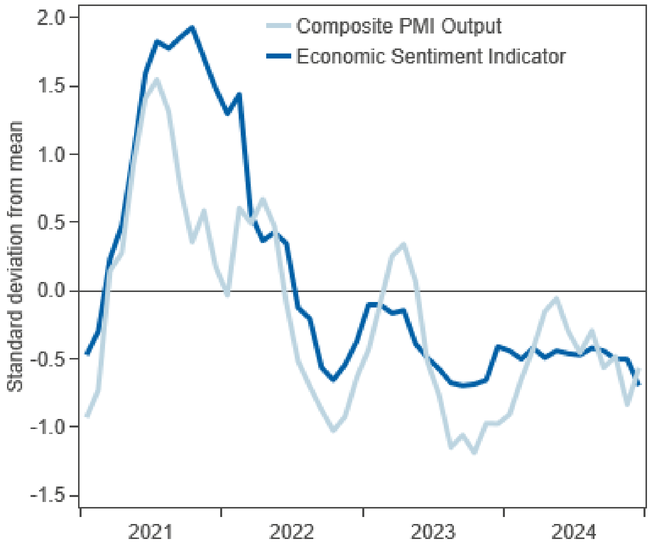
GDP growth resumed in the first quarter of last year

Eurozone Misery Index



Sources: Macrobond and Handelsbanken

Survey sentiment indicators



Source: DG ECFIN, S&P Global, Macrobond och Handelsbanken

Households' real disposable income has expanded at a healthy pace, close to 3 percent y-o-y on average in the first three quarters 2024, as employment has continued to grow, and nominal wage growth has outpaced inflation. However, households have saved an increasing share of their income, which probably reflects high interest rates as well as continued uncertainty. In the third quarter of 2024, the household gross saving rate stood at above 15 percent, which is almost three percentage points above the average during the five years proceeding the pandemic.

Household saving rate is more than three percentage points above the pre-pandemic average

Our own augmented misery index for the eurozone highlights the fading negative impact of inflation with nominal wage growth remaining elevated, in addition to low unemployment, increasing asset prices, and easing monetary policy.[10] Nevertheless, consumer confidence remains subdued with a negative trend in forward-looking components at the end of last year as households became less optimistic about the economy, unemployment and prices over the next 12 months.

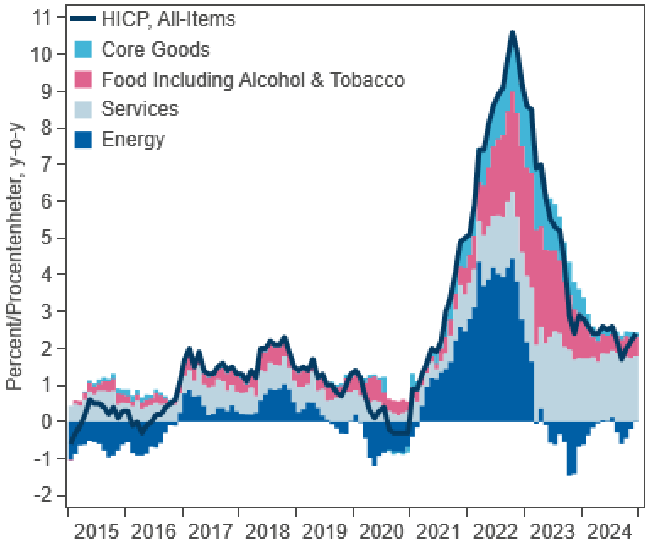
Labour markets remain tight

Improving demand must be matched by sufficient supply in order to generate sustainable growth that does not threaten the inflation target. The latest European Commission business survey shows that price expectations are still high compared to demand expectations in the service sector, raising a question mark about renewed cost pressures as demand strengthens. In addition, a soft landing is still conditional on the labour market continuing to cool – e.g. lower vacancy rates and easing labour shortages – without any significant increase in unemployment. That said, there are signs of easing cost pressures with the contribution to GDP inflation from unit profits absent since the beginning of last year, and the contribution from unit labour costs just above two percent in Q3 2024. The latter is primarily driven by green shots in productivity while wage growth has remained elevated. However, the headline ECB wage tracker indicates that negotiated wages peaked at around 5.4 percent at the end of 2024, but will gradually ease to an average of 3.2 percent during 2025.[11]

A soft landing is conditional on the labour market continuing to cool with no significant increase in unemployment

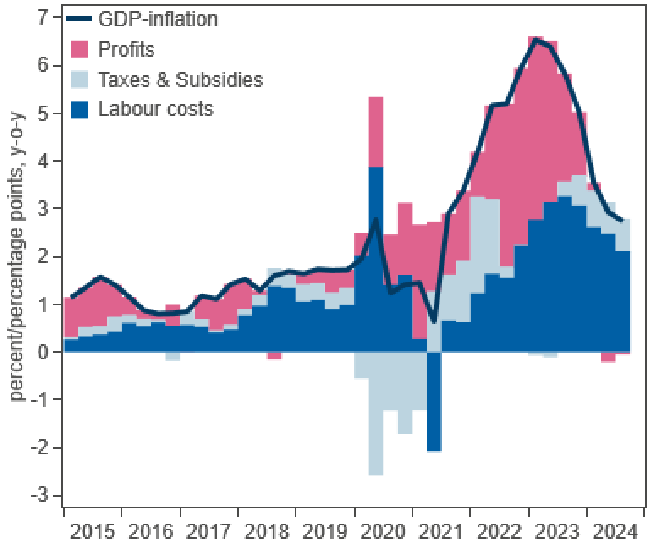
Handelsbanken

HICP inflation breakdown



Sources: Eurostat, Macrobond and Handelsbanken

GDP-inflation breakdown



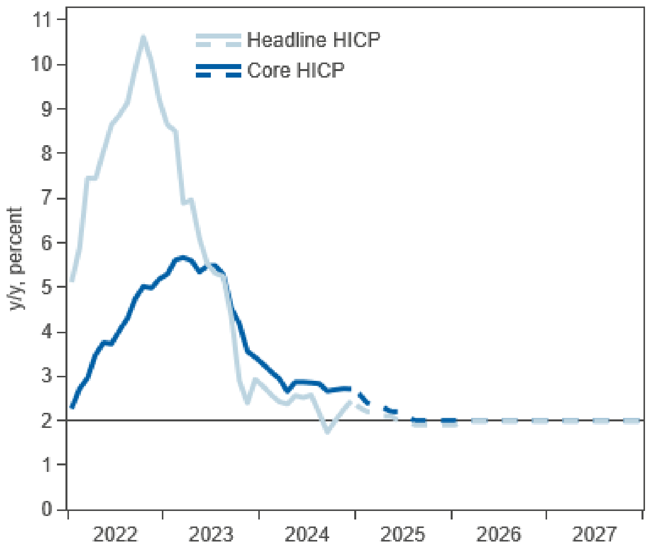
Sources: Eurostat, Macrobond and Handelsbanken

Disinflation continues

Overall, the weakening economy has been accompanied by falling inflation, which has allowed the ECB to cut interest rates. Subdued activity and falling energy prices contributed to headline inflation dropping to 1.7 percent in September, before rebounding in the fourth quarter as the negative contribution from energy prices abated, while, in December, headline inflation stood at 2.4 percent. Core inflation remains more noticeably above target at 2.7 percent in December due to stubborn service inflation. There is, however, a downward trend in service inflation momentum (three months over previous three months), down from over 5 percent in April–May, to 2.7 percent in December. Going forward, we believe that slowing wage growth and a pickup in productivity growth will help to keep service inflation at around this level, which we assess to be in line with the two percent inflation target. Overall, we expect y-o-y core inflation to stabilise around the target in the second half of this year.

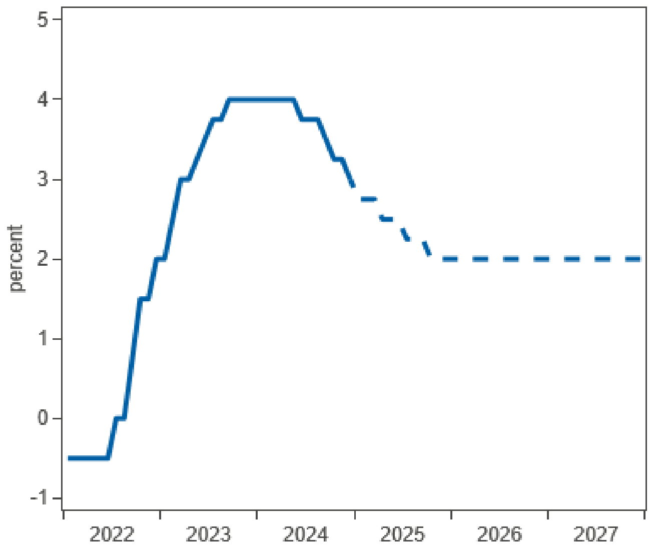
The weakening economy has been accompanied by falling inflation

Inflation forecast



Sources: Eurostat, Macrobond and Handelsbanken

Policy rate forecast



Sources: Eurostat, Macrobond and Handelsbanken

Lower policy rates support a modest recovery...

We expect the ECB to continue with back-to-back rate cuts in January and March

The continued easing of monetary policy is a key condition for the recovery to materialise. We expect the ECB to proceed with back-to-back rate cuts in January and March, down to 2.5 percent, after which we expect rate cut decisions at the meetings supported by full macro projections in June and September, when the policy reaches 2.0 percent – our estimate of the neutral rate. We expect the contribution to the recovery from fiscal policy, including Next Generation EU (NGEU) funds, to be broadly neutral over our forecast period.

Global and structural headwinds weigh on the pace of recovery

We believe that global and structural headwinds will weigh on the speed of the recovery, especially for energy-intensive and automotive industries, and limit the scope for a sustainable expansion beyond 2026. Headwinds include an escalation in trade tensions, still high energy prices, intensified competition from China and policy uncertainty. In addition, we expect little progress in terms of structural reforms boosting potential growth in the near term (see theme article Eurozone medium-term growth challenges).

...with risks tilted to the downside

Slow progress in key structural reform areas is an obstacle to reap the benefits of the technological revolution

Our relatively mild baseline tariff scenario implies that negative risks dominate for the global economy. For the eurozone, energy prices also pose a risk with EU gas storage in mid-January just over 60 percent full (around 15 percentage points below the same period last year), and greater exposure to market volatility after the end of Russian pipeline flows via Ukraine. On the positive side, households may release their ample savings and there may be more slack than anticipated for companies to meet a boost to demand with higher productivity. Last but not least, the speed and impact of the ongoing technological revolution has the potential to bolster productivity, but there are question marks regarding the extent to which the EU is equipped to reap the benefits due to slow progress in key structural reform areas.

Theme article - Eurozone medium-term growth challenges

Acceleration in growth capped by inadequate reform progress

The eurozone is facing a range of interlinked short- and long-term challenges. Continued disinflation and monetary policy easing are key to the recovery but challenged by escalating trade tensions, fragile energy supply, competition from China, policy uncertainty and high public debt. Growth prospects are capped by ageing populations and slow productivity growth, with regulatory obstacles and insufficient access to finance among the primary hurdles to capital accumulation and innovation. More harmonisation and deeper integration, including the fiscal space and capital markets, are key ingredients to boost long-term growth. Based on the EU's track record in these reform areas, however, hopes for timely progress are low, and we expect no pickup in growth beyond the cyclical recovery.

Slow growth reflects both cyclical and structural headwinds

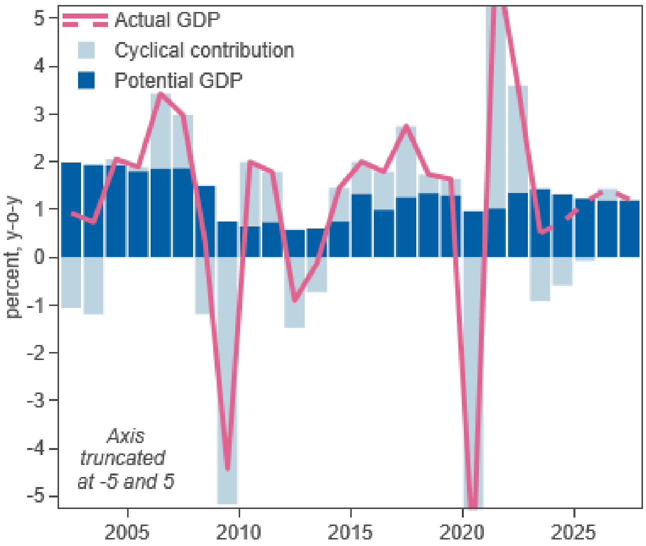
The eurozone is facing several economic interlinked challenges, ranging from ensuring a soft landing after the inflation crisis, to longer-term objectives for welfare, self-sufficiency, security and the green transition. In this article, we discuss some of the key growth challenges facing the eurozone over the medium term. (See also our Macro Comment *Acceleration in growth is capped by inadequate reform progress* and the Eurozone article in this report.)

The eurozone is facing several interlinked economic challenges

Slow GDP growth in the eurozone reflects both cyclical and structural headwinds. The recent slowdown in economic activity recorded in 2023–24 is primarily a result of the inflation crisis and the following monetary policy tightening. Nevertheless, modest potential growth is capping the space for GDP expansion. There is some, but not much, slack in the eurozone economy, and we assess potential growth to be around 1-1.5 percent in the coming years, broadly unchanged compared to the five-year period before the pandemic, but markedly lower than the five-year period before the 2008-09 financial crisis. In addition, structural factors also weigh on the speed of the recovery, in particular increasing trade tensions, intensified competition from China and still high electricity prices.

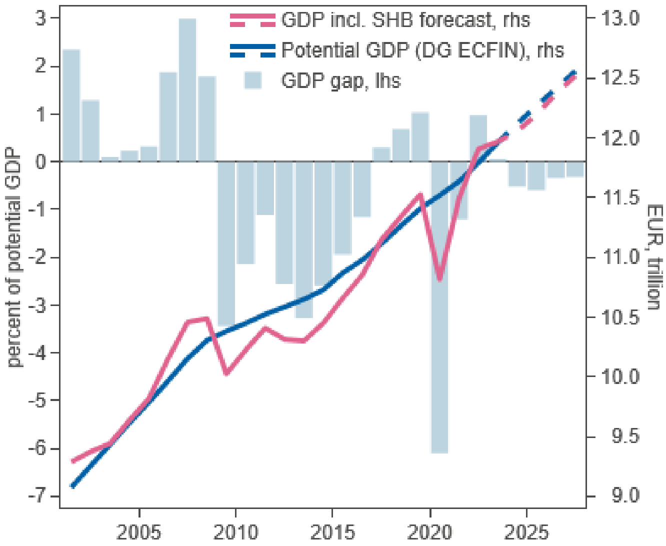
Recent swings in economic activity are primarily a cyclical phenomenon, but modest trend growth caps the expansion

GDP growth - trend breakdown and cyclical contribution



Sources: Eurostat, DG ECFIN, Macrobond and Handelsbanken

GDP - actual, trend and gap



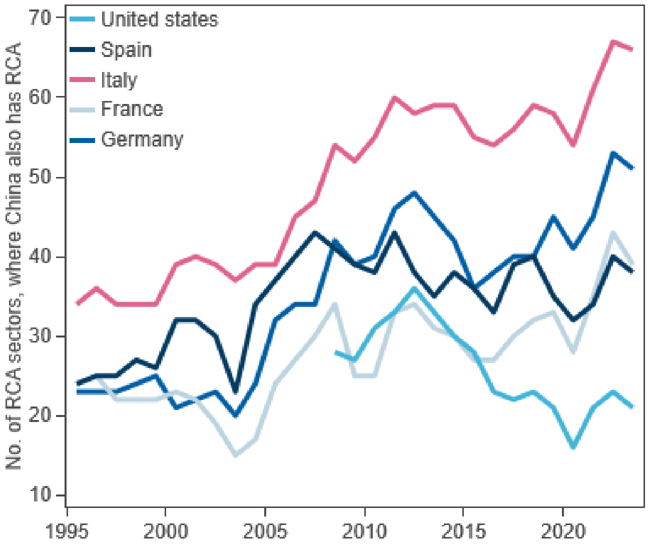
Sources: Eurostat, DG ECFIN, Macrobond and Handelsbanken

Increased competition from China

Overcapacity in the Chinese economy and mounting global trade barriers pose significant challenges for the eurozone economy, particularly the manufacturing sector. While there is still considerable uncertainty around the development of global trade barriers, intensified competition from China is a certainty. According to Prosperity Data360's revealed comparative advantage indicator, China has become competitive in almost 60 percent of the sectors in which Italy holds a comparative advantage, with the corresponding figure above 50 percent for Germany, above 40 percent for France and Spain, and markedly above the US at around 25 percent.[12] Recent global trade policy dynamics also indicate that the EU is becoming a more central export market for China. Since 2016, China's market share of eurozone imports has risen by 3 percentage points, compared with a decline of 11 percentage points in US imports. Trade patterns suggest that Chinese products find their way to the US through other Asian economies to avoid tariffs. However, US measures to restrict Chinese imports may exert further downward pressure on Chinese export prices. Intensified competition from China comes on top of any escalation of global trade conflicts or raised tariffs on EU products to the US, which could have significant negative implications for eurozone growth (see theme article *Tariff scenarios*).

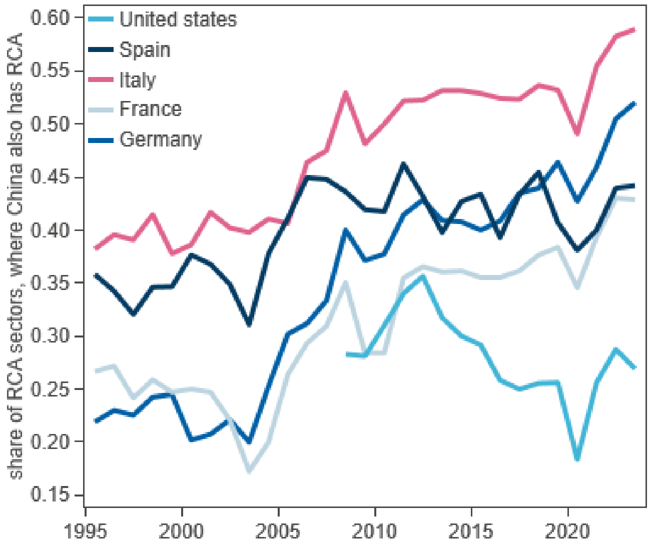
Recent global trade policy dynamics also indicate that the EU is becoming a more central export market for China

Number of sectors competing with China



Sources: UNCTAD, Macrobond and Handelsbanken

Share of sectors competing with China



Sources: UNCTAD, Macrobond and Handelsbanken

China leading the electric vehicle revolution

The huge increase in subsidies to Chinese producers of electric vehicles is reminiscent of the way in which China increased its global market share of the solar panel industry from 5 percent in 2000 to 50 percent in 2024. A recent ECB report assesses the spillover of Chinese subsidies to electric vehicles in a scenario whereby the relative price of Chinese EVs and electric batteries drops by 50 percent, in line with estimates of the price differential between Chinese and EU producers.[13] In such a scenario, EU domestic production would decline by 70 percent as the global market share for Chinese EVs increases by 60 percentage points, while EU producers' market share shrinks by 30 percentage points (with German producers bearing the brunt of more than 50 percent of the loss). While the results appear extreme, the scenario closely resembles what happened in the solar panel industry. However, the macro impact is limited, with overall EU GDP falling by a mere 0.1 percent owing to the small size of the EV industry. Furthermore, the scenario does not incorporate mitigating effects, such as EU producers lowering their prices or the EU responding with subsidies or tariffs.

Electricity prices remain high

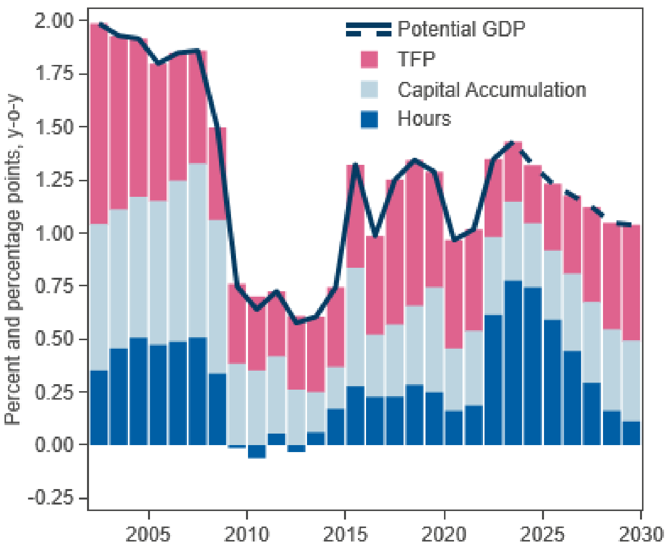
European energy prices peaked during the autumn of 2022 and have since come down. In the third quarter of 2024, European wholesale benchmark electricity prices were around 80 percent below those seen in the corresponding quarter in 2022, but around 70 percent above the Q3 average during 2015-21. While the worst energy-related drag to GDP growth is behind us, energy supply remains a constraint despite improved energy efficiency and a major shift to LNG (see Eurozone Macro Comment *Acceleration in growth is capped by inadequate reform progress*).

Q3 2024 – wholesale electricity prices 80 percent below the peak but 70 percent above the pre-war average

Potential GDP growth remains muted

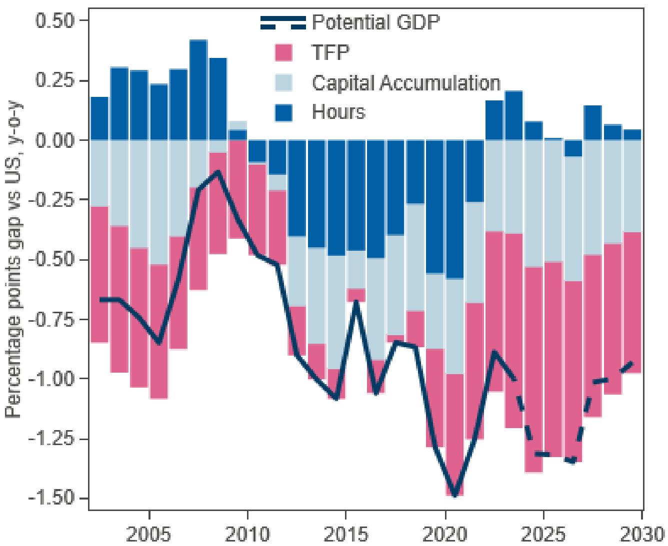
When unpicking the medium-term structural challenges, we use the EU Commission's assessment of potential growth and its breakdown as a reference point. Trend estimates are always shrouded in significant uncertainty, but they serve to highlight some key insights. The Commission expects potential growth to decline from 1.4 to 1.0 percent between 2023 and 2029, largely due to falling growth in hours worked, which is only partly offset by higher growth in total factor productivity (TFP), i.e. the economy's ability to generate growth with given inputs of capital and labour.

Breakdown of potential GDP



Sources: DG ECFIN, Macrobond and Handelsbanken

Breakdown of differences in potential GDP growth vs US



Sources: DG ECFIN, Macrobond and Handelsbanken

Labour force growth is driven by a range of factors, including life expectancy, fertility and migration, in addition to incentives and obstacles to work. At the end of 2023, eurozone employment stood about two percent above the EU Commission's pre-pandemic projections, primarily driven by the increase in the foreign working-age population and higher-than-expected domestic worker participation. In recent year, however, EU countries have, if anything, tightened their immigration policies. While we believe that the positive trend in the labour force participation rate is set to continue, it has been associated with a declining trend in hours worked per person. This partly reflects preferences and income effects when two wage earners can afford to work fewer hours, but also joint taxation systems and working time regulations. Finally, with record-low unemployment, we see limited space for a further decrease to boost hours.

The positive trend in labour force participation has been associated with a declining trend in hours worked per person

Productivity growth is key

Measures to boost labour supply are critical if we are to meet the consequences of ageing populations (labour shortages and welfare costs). However, the only way to improve welfare is by boosting productivity growth. This, in turn, depends on the economy's ability to accumulate capital and to generate income from available inputs of labour and capital, or total factor productivity (TFP). The Commission's breakdown of potential growth suggests that the contributions from both capital accumulation and TFP are markedly below the pre-financial crisis period, although relatively stable compared to the previous decade. Moreover, the lower contribution from capital and TFP fully explains the gap in potential growth compared to the US economy of about 1-1.4 percentage points during 2022-30 (see graph above).

Capital accumulation and TFP are markedly below the values seen prior to the financial crisis but relatively stable compared to the previous decade

Eurozone lagging the US in critical sectors

While there is scope for new technology to spread from frontier companies to the rest of the economy, the weak position of European-based companies in critical sectors of the new economy, such as digital technologies, is worrying for potential growth. These high-productivity, frontier companies are the ones expected to innovate and bring new technologies to the market. European success stories are generally found in traditional industries such as healthcare or consumer products. The slump in the automotive sector is widely interpreted as a symptom of the problems facing the German economy. However, a more fundamental problem is perhaps that Europe's industrial structure has remained static, with automotive companies consistently dominating the top-three R&I spenders.

The weak position of European-based companies in critical sectors of the new economy is worrying for potential growth

The Draghi report includes a number of illustrative examples of how the eurozone lags the US in critical sectors of the new economy. For example, only four of the world's top-50 tech companies are European, around 70 percent of foundational AI models have been developed in the US since 2017, US so-called "hyperscalers" account for over 65 percent of the global cloud market, five of the top-ten global quantum investment companies are based in the US and four in China, and none are based in the EU.[14]

Only four of the world's top-50 tech companies are European

Another potential obstacle to technological innovation and diffusion is a lack of top research institutions, with the EU being home to just three research institutions ranked among the top 50 globally, whereas the US is home to 21 and China to 15, using volume of publications in top academic science journals as an indicative metric. Other indicators of skill gaps include the fact that almost 60 percent of EU companies report that a lack of skills is a major barrier to investment, and a similar proportion report difficulties in recruiting ICT specialists. Furthermore, job vacancies in the EU for cleantech manufacturing doubled between 2019 and 2023.

Only three European research institutions are ranked among the top 50 globally

Access to finance is crucial to boost potential growth

Access to finance is key to boost potential growth and plays a central role in increasing capital formation and enhancing the ability to scale companies in critical sectors of the new economy. For example, the Draghi report flags the absence of venture capital for tech startups and highlights that European success stories tend to turn to the US for financing when they start meeting constraints that prevent their expansion in Europe. The problem is not a lack of savings, since household saving rates are sufficiently large to finance higher investment, but rather a mismatch between savings and productive investments. This is partly due to the structure of the European financial sector, which is heavily bank-finance based, but also due to the regulatory environment, which is generally considered less flexible in the EU and can vary from country to country. Furthermore, the regulatory burden is another major business obstacle in the eurozone. According to a report by the EIB, regulation is viewed as an obstacle to investment by more than 60 percent of EU companies, with 55 percent of SMEs rating regulatory obstacles and the administrative burden as their greatest challenge.[15]

European success stories tend to turn to the US for financing when their European expansion is constrained

Substantial financing need

In addition to capital accumulation to boost potential growth, substantial investments are necessary to improve competitiveness, support the green transition and promote economic security and resilience at EU level. In order to digitalise and decarbonise the EU economy and increase defensive capacity, the Draghi report estimates that the investment share in Europe will have to rise by around 4.5 percent of EU GDP, from roughly 22 percent of GDP today to around 27 percent – a level last seen in the 1960s and 1970s.

The Draghi report estimates that the investment share in Europe will have to rise by around 4.5 percent of GDP

To deliver the necessary financing, the Draghi report's proposals include the completion of the Capital Markets Union (CMU) and also calls for fiscal incentives to unlock private investment in addition to direct government investment. The report also stresses the importance of issuing a common safe asset to achieve and complete the CMU.

Hope for timely progress on structural reform is low

The costs and benefits of structural reform are often unevenly spread between different groups of the population and over generations, and implementation often faces resistance, not least reforms to increase incentives to work more or longer and to relax labour market protection regulations.

Many of the Draghi report's proposals have been on the table for more than a decade

While many of the Draghi commission recommendations on capital markets seem achievable, they have been on the table for EU policymakers for more than a decade, without much progress in terms of concrete proposals or implementation. A recent ECB assessment concludes that progress on financial integration in the eurozone has been disappointing overall. On a related note, progress in achieving the objectives for Europe's digital transformation by 2030 has also been slow. The main theme of the 2024 State of the Digital Decade report is that this is a wake-up call, with the report urging member states to make greater efforts in the fields of skill accumulation, high-quality connectivity, adoption of artificial intelligence (AI) and data analytics by businesses, semiconductors, and start-up ecosystems.[16]

Overall, hope for timely progress on structural reform is low

Fiscal support to boost investment is part of what the IMF's 2024 fiscal monitor report labels a policy trilemma with (1) irresistible pressure to spend more in a variety of areas, such as defence, climate change, competitiveness, education, and welfare, (2) political resistance to taxation, and (3) macroeconomic stability, including public debt sustainability, as well as monetary and financial stability.[17] Moreover, Draghi's push for common public financing immediately received criticism from Germany, a key player for any progress. Overall, hope for timely progress on structural reform is low, and we do not expect growth to pick up beyond the gradual short-term cyclical recovery.

Norway

Norges Bank to cut its policy rate in March

Growth in the Norwegian economy is picking up, and activity is likely to remain at around its trend level in the coming years. Moreover, the downtrend in underlying inflation has stalled. We still expect Norges Bank to cut its policy rate in March, but the outlook would now suggest fewer rate cuts in the years ahead. We forecast a total of three rate cuts in 2025, and see a terminal rate of 3.25 percent by the end of our forecast horizon in 2027. This is above Norges Bank's estimate of a terminal rate of slightly below 3.00 percent.

Full capacity utilisation

The mainland economy has performed better than expected

The Norwegian economy is performing relatively well, and growth is picking up. Mainland GDP increased by 0.5 percent in Q3 last year, and by 0.4 percent excluding volatile factors. This was somewhat higher than we had previously expected. At the same time, GDP figures for the first half of last year have been revised upwards. Both private consumption and public demand have been higher than initially calculated by Statistics Norway. The increase in unemployment has also slowed in recent months, and registered unemployment remains slightly below pre-pandemic levels. Broad-based unemployment rates (according to the Labour Force Survey) are around pre-pandemic levels and have stabilised further in recent months. Labour force participation remains high, which means the overall employment rate is still near the highest levels seen since the boom prior to the global financial crisis. The number of job vacancies remains high, although it has declined slightly, and the monthly flow of new positions – adjusted for seasonal variations and working days – continues to hold up.

Norges Bank's Regional Network expects to see a pickup in growth

Looking ahead, businesses in Norges Bank’s Regional Network report that they expect growth to pick up slightly. Oil supplying companies still have the highest growth expectations, followed by service-producing sectors. Meanwhile, activity continues to decline in construction, although the rate of decline has eased. The pre-sale of new homes also appears to have bottomed out and is showing signs of a slight recovery, which will gradually lead to a rebound in residential investments. Further into our forecast horizon, we expect the recovery in residential investments to gain momentum, in line with the solid growth expected for real house prices.

Consumption growth has been stronger than suggested by consumer confidence

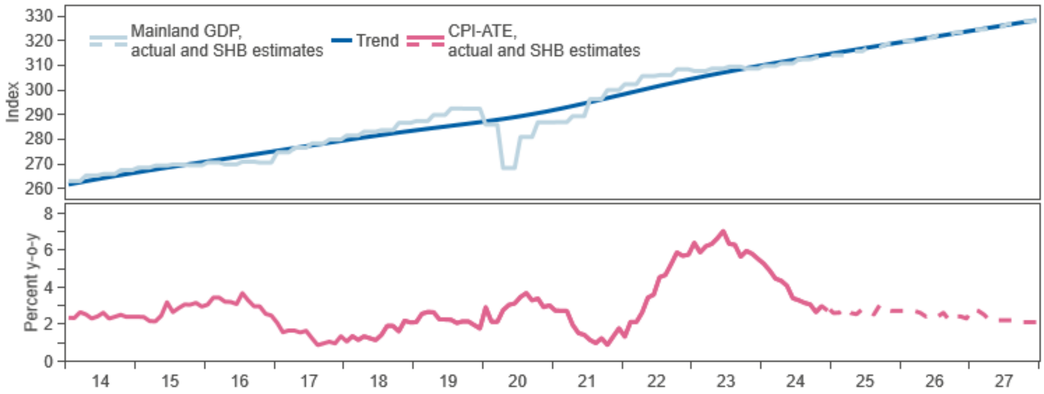
For households, purchasing power increased by about 2 percent last year, and the Social Partners in the labour market expect further purchasing power gains. Aggregate consumption growth has also been stronger than still-weak consumer confidence would suggest. This is likely because actual spending is being bolstered by better fundamentals, i.e. increased real disposable incomes.

The contribution from public demand and transfers should not be overlooked either. The budget agreement for 2025 includes a more expansionary impulse for the Norwegian economy, in addition to the fact that revenue spending in 2024 was higher than previously reported.

Forecasting growth of 1.6 percent for 2025

All in all, we assess that the Norwegian economy is currently in a cyclical neutral position. This is also the feedback coming from businesses in Norges Bank’s Regional Network and is supported by developments in various labour market indicators. We now forecast that mainland GDP will grow by 1.6 percent this year, following growth of 0.9 percent in 2024. Towards the end of our forecast period, we expect growth to ease slightly to 1.4 percent, which is largely in line with the long-term trend growth in the Norwegian economy. These projections imply that the Norwegian economy will maintain full capacity utilisation throughout the forecast period.

Mainland GDP and core inflation



Sources: Macrobond and Handelsbanken

Full capacity utilisation throughout the forecast period

Downtrend in core inflation has stalled - no rate cut until March

Meanwhile, the decline in core inflation has levelled off. Examining the seasonally adjusted core inflation figures, we find that annualised price growth has hovered around 3 percent in recent months. It also appears that the decline in imported price growth has subsided for now, while price growth remains high for domestically produced goods and services. These components constitute about two thirds of the CPI-ATE, and have not shown a further downtrend since August last year. Although nominal wage growth is declining and productivity growth has improved, cost growth remains too high to be fully compatible with the inflation target in the long run. We still do not expect price growth to align fully with the inflation target, even by the end of our forecast period.

Core inflation remains sticky - we still believe that Norges Bank will wait until March to cut it key policy rate

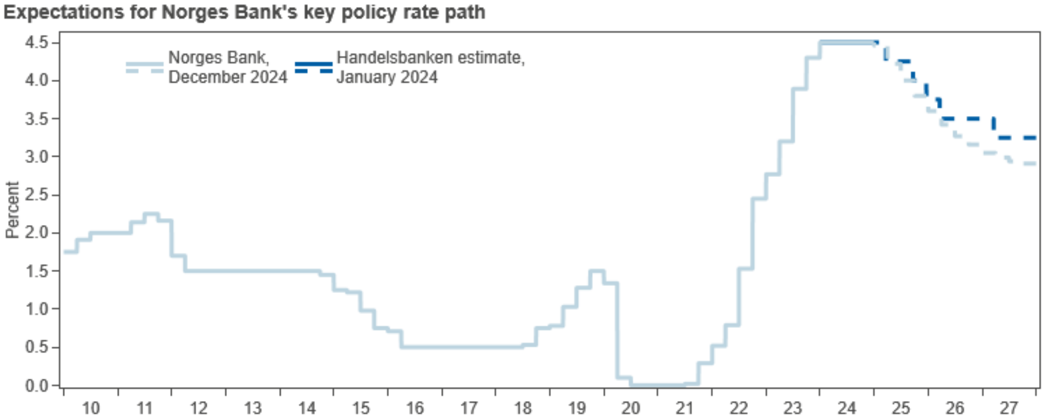
Given the outlook for full capacity utilisation in the Norwegian economy and the time required to stabilise underlying inflation around the target, it will take time before the policy rate can fully normalise. We forecast the policy rate reaching an endpoint of 3.25 percent by the end of 2027. In comparison, Norges Bank sees the terminal rate slightly below 3.00 percent. Our estimates imply that the real money market rate will gradually move downwards, but still trend slightly above the upper range of neutral.

We forecast a policy rate endpoint of 3.25 percent by the end of 2027

Our baseline scenario remains that the outlook for the Norwegian economy is relatively strong compared to the eurozone and that the krone could gradually strengthen against the euro in 2025. We believe EUR/NOK will hover around the 11.60 mark over the next three- to six months. However, currency market participants remain cautious about investing in the Norwegian kroner, likely due to uncertainty regarding the trade policy that the Trump administration might implement in 2025. Thus, we must account for the possibility of unusually large fluctuations in the value of the Norwegian krone in 2025.

Trump's trade policy could lead to fluctuations in the NOK in 2025

Expectations for Norges Bank's key policy rate path



Sources: Macrobond and Handelsbanken

Overall, we expect three rate cuts in 2025, and see the terminal rate at 3.25 percent in 2027

Sweden

Improved purchasing power paves way for recovery

Economic activity remains weak, but there are signs that may herald a turnaround in the Swedish economy. Expansionary fiscal policy, lower interest rates and rising real wages are improving households' purchasing power and paving the way for an upturn in household consumption. As a consequence, despite weak global demand, we expect growth to pick up and the labour market situation to gradually improve later this year. Inflation is strongly influenced by energy prices, but underlying inflation is just above the 2 percent target. Towards the end of 2025, we expect underlying inflation also to be on target and believe that the Riksbank will make a final rate cut to 2.25 percent in January, which it will then maintain.

Economic turnaround in sight

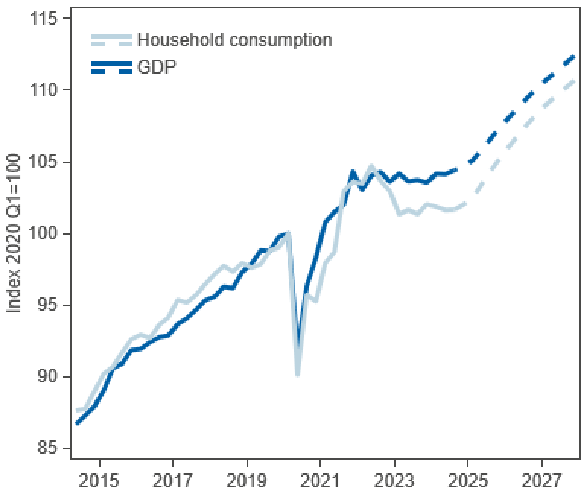
Tentative signs of a turnaround in the Swedish economy

The economic downturn continued in the second half of 2024. There are indications, however, that the Swedish economy started to show tentative signs of an improvement towards the end of 2024, with both household consumption and GDP rising in November, according to Statistics Sweden's flash indicators. Nonetheless, further evidence is needed before we can conclude with any certainty that the recovery has begun since confidence indicators for both households and businesses are still at levels that indicate slightly lower growth than normal in the near term. In addition, export growth is subdued owing to the weak economic development in the eurozone. Overall, we forecast that both GDP and household consumption will increase at a normal pace during the first quarter of this year.

Recovery beginning in the first half of 2025

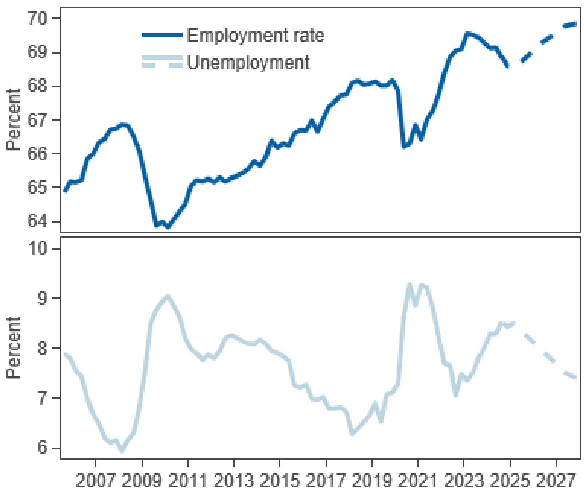
The ongoing improvement in households' purchasing power suggests that household consumption will increase this year. Various surveys also indicate that households are optimistic about the future, which is an indication that consumption should start to pick up. The timing and strength of the consumption recovery will largely be driven by the trade-off households will make between saving and increased consumption. We believe that households' improved purchasing power boosted by rising real wages, income tax cuts and lower interest rates will lead to a cautious recovery in consumption during the first half of 2025. At present, however, the upturn is being held back by households' continued caution and the savings ratio, which is likely to remain high this year. As households build up their buffers and the economic situation brightens, we expect the household savings ratio to decline slightly next year, which, combined with rising real wages, continued expansionary fiscal policy with further tax cuts and increased employment, will lead to household consumption increasing faster than normal in 2026. Overall, we forecast that GDP will increase by 1.9 percent this year and rise by 2.7 percent in 2026 and 2.2 percent in 2027.

Household consumption will drive the recovery



Sources: Macrobond, Statistics Sweden and Handelsbanken.

Unemployment and employment rate



Sources: Macrobond, Statistics Sweden and Handelsbanken.

The labour market is weak but showing hints of an improvement

Declining employment driven by fewer temporary employees

The labour market situation continued to weaken during the second half of 2024, as evidenced by a falling employment rate and rising unemployment. The number of employed people has decreased in large parts of the business sector and companies' labour shortages are now well below the historical average. However, the employment rate remains higher than before the pandemic and the decline in employment has been driven entirely by fewer temporary employees. This indicates that companies have been able to meet weaker demand by reducing the number of new hires and cutting back on temporary employees rather than having to lay off permanent staff.

Labour market situation approaching the bottom

Many indicators suggest that the labour market situation may be close to the bottom. Employment plans in the business sector are slightly positive and the number of layoffs has decreased in recent months. The number of temporary employees, which has fallen by over 100,000 since the peak in 2022, also levelled off during the autumn. However, continued weak demand in the economy suggests that it will be some time before the labour market situation turns around. Overall, we expect to see a recovery in the labour market towards the summer, which we believe will primarily be driven by higher domestic demand.

Inflation slowly on its way to the 2 percent target

Underlying inflation just above the 2 percent target in 2025

Inflation is rising towards the 2 percent mark as the electricity price fall has run its course and soon ceases to weigh on the total CPIF inflation, which was lower than the Riksbank's target for much of 2024. Underlying inflation – illustrated by the CPIF excluding energy (CPIFXE) – looks set to remain just above 2 percent in the short term, but we are sticking to our forecast that the trend is cooling and that the Riksbank's 2 percent target will be durably met towards the end of the year.

Forward-looking indicators close to normal, but some recent gains

For the most part, forward-looking indicators remain at levels close to the average observed before the inflation crisis years. In recent months, however, we have seen an upturn in some metrics; wages and unit labour costs continue to rise relatively quickly and now appear to be joined by, for example, purchasing managers' signal on input prices. However, a number of other indicators are still just below normal, and overall we forecast that CPIFXE inflation will exceed 2 percent only moderately and for a shorter period.

Macro conditions support an inflation settling at 2 percent

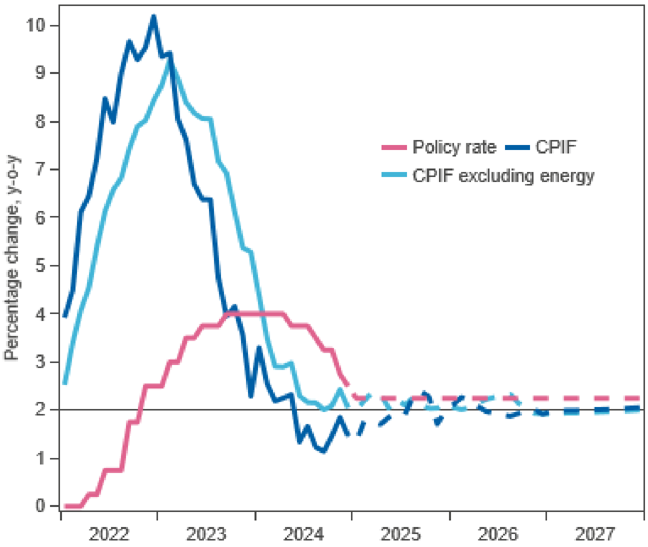
We hold onto the view that 2 percent is the new normal, and that Sweden will not fall back into an inflation trend below the Riksbank's target. Although there have been signs that the weaker economy has finally made an impression on declining profit margins at the macro level, the signs of lingering change in price and wage-setting behaviour are generally intact and both inflation and wage expectations are higher than during the low-inflation period of the 2010s.

The Riksbank is now approaching the end of this interest rate cycle

Sufficient to lower the interest rate to a neutral level

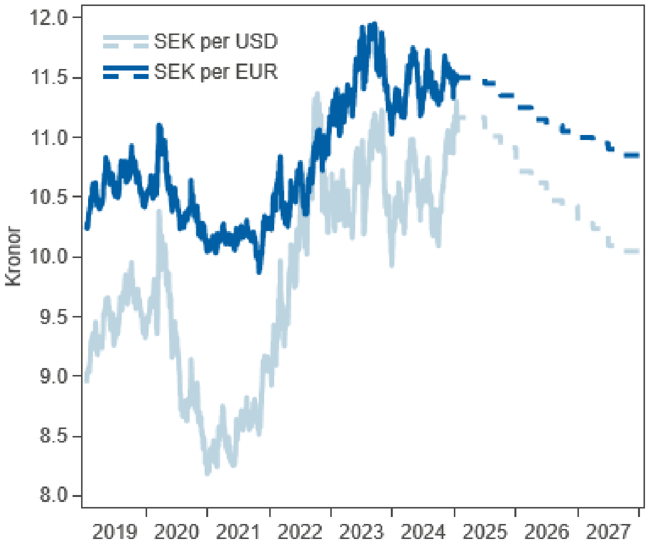
We forecast that the Riksbank will make a final interest rate cut at the end of January to 2.25 percent and expect the interest rate to remain at this level thereafter. Inflation is on target and our forecast is that it will be close to 2 percent in the coming years. At the same time, the economy is still weak, which could motivate further interest rate cuts, but our forecast is that growth will start to pick up in the first quarter of this year and gain momentum over the course of 2025. This leads us to conclude that it is sufficient to lower the interest rate to the "neutral" level. That is, an interest rate level that neither tightens nor stimulates the economy, and at which inflation is stable at the target. Although there is considerable uncertainty regarding what this level might be, our assessment is that the neutral interest rate is around 2.25 percent, and we highlight that it is also the midpoint of the Riksbank's new range for the neutral rate of 1.5 to 3.0 percent.

Inflation at target and policy rate neutral



Sources: Macrobond, Statistics Sweden and Handelsbanken

Stronger krona, after the summer 2025



Sources: Macrobond and Handelsbanken

A volatile year for the krona

In the long term, we still believe in a stronger krona...

The krona has been on a roller coaster ride in 2024, with the fluctuations driven more by global factors than domestic ones. The link between the krona and US macro statistics – not least inflation and the labour market – has been unusually strong, and the rise in US interest rates in the autumn has benefited the dollar and contributed to the weakening of the krona. Sweden is also a small open economy, which means that it is relatively highly exposed to Trump's threat of trade tariffs in the future. This threat also contributed to the weakening of the krona during the autumn, and the weakening has mainly taken place against the dollar. The market seems to perceive the eurozone as being equally exposed to tariffs as Sweden, which has meant that the euro has also traded weakly since Trump won the presidential election in early November.

...but do not expect it to strengthen until after the summer

We still believe in a stronger krona. In the next few quarters, however, it is difficult to see any clear appreciation. As long as the Fed waits to make further interest rate cuts and uncertainty around Trump's policies continues, the krona's exchange rate will probably remain at today's relatively weak level. After summer 2025, however, we believe that uncertainties will ease somewhat, and that opportunities will arise to support a stronger krona.

United Kingdom

Gloomy winter to give way to a gloomy spring

For the past year our belief has been that reasonable, albeit below trend, growth would prevail throughout 2025 and into 2026. However, a chill wind has pierced our expectations and we are lowering our forecast. Business confidence has sagged following the new government's first budget, which raised GBP 40bn in taxes and increased the cost of labour due to higher National Insurance rates, as well as the impending rise in the National Living Wage. At the same time, our call that inflation would be sticky appears correct and thus, while we still expect the Bank of England to cut its policy rate over the course of 2025, we believe that it will do so more slowly, with the rate unlikely to go below 3.5 percent until mid 2027 - a higher trajectory than we had forecast just four months ago.

2024 fizzled, and 2025 holds little promise

Setback in confidence diminishing our outlook, but higher government spending to support economic growth

In mid-2024, the UK economy was a growth-leader amongst advanced economies, but the hope this would continue is now nothing more than a fast fading memory. Consumer and business confidence has suffered a blow due to the new government's 30 October budget, and much of the benefit that might have been expected from strong earnings growth is now set to be consumed by tax rises. Inflation has fallen, but is proving stickier than hoped for, and as a result, interest rates are declining more slowly than previously expected. Moreover, businesses are increasingly reluctant to invest, and only government spending is set to be firmly supportive of broader economic growth in the next two years, with consumption likely to grow at half its normal pace and business investment (only just) remaining positive.

Overall, the growth outlook remains challenging: we forecast growth of 1% in 2025, 1.5% in 2026, and 1.7% in 2027

If we dig into the details, our forecast is for the overall economy to grow by 1.0 percent in 2025, rising to 1.5 percent in 2026 and 1.7 percent in 2027. We believe that consumer spending growth will be driven by the balance between the rise in earnings against a growing tax burden. The result is an increase in consumer spending of 1.0 percent in 2025, with 1.5 percent in 2026 and 2027. These forecasts do not envisage substantial changes in the tax burden, which, if implemented, would further undermine confidence and spending power and would worsen the general economic outlook. The savings rate, at 11.1 percent, remains above the last 20-year average, since savings now yield a reasonable return, and because consumer caution has been growing as the economy slows. Looking forward, we expect modest spending of accumulated savings as consumers seek to maintain their standard of living.

Chancellor Rachel Reeve's fiscal targets appear to be at risk

The big domestic economic event of the autumn and winter of 2024 was Chancellor Rachel Reeves' first budget on 30 October, in which she maintained two of the long-standing "Golden Rules" that she and her predecessors have used to establish market credibility. The first rule is that the government will only ever borrow to invest, the second is that within a five-year time horizon, the ratio of government debt to GDP will be falling. The second rule has been subtly changed in that the measure of "net debt" has been replaced by "net financial liabilities", with the latter counting the income from government-held assets, and thus increasing the amount of potential borrowing. At the time of the budget, the Office for Budget Responsibility (OBR) judged that the Chancellor only had a 54 percent chance of meeting her deficit target; subsequent developments suggest a miss is even more likely, as ten-year gilt yields at the beginning of September were roughly 4 percent, whereas the trading yield on 10 January was 4.85 percent, pointing to higher debt servicing costs. This will leave the Chancellor with the difficult task of borrowing more (where investors will have a say), raising taxes (which she has promised not to do), or reducing spending, (which politically she will not want to do). Our view is that the most likely outcome will be more minor tweaks to taxation, combined with delays to longer-term investment spending. Where all this money is to be spent over the next few years, and the impact it might have, is now set to be revealed at the June 2025 Spending Review.

Labour market remains tight

Higher labour costs likely to encourage more rapid automation

The employment market has been one of the chief positives of the UK economy since the pandemic, with high degrees of employment being maintained, despite economic shocks. The key challenges for 2025 are the 6.7 percent rise in the National Living Wage (and an 18 percent rise for 16 and 17-year-olds) and the 2 percent rise in employers' National Insurance, both due to take effect in April. Our expectation is that these will discourage the hiring of younger and lower-paid workers and drive employers to substitute labour for automation where possible. However, the substitution of labour is likely to be a slow process, and we expect unemployment to rise only moderately to 5.3 percent over the course of 2025 – well below the recessionary peak of 8 percent seen in 2008. We expect the broader labour market to remain tight in 2025, as employers continue to hold onto key workers, and thus earnings growth will come down only slowly.

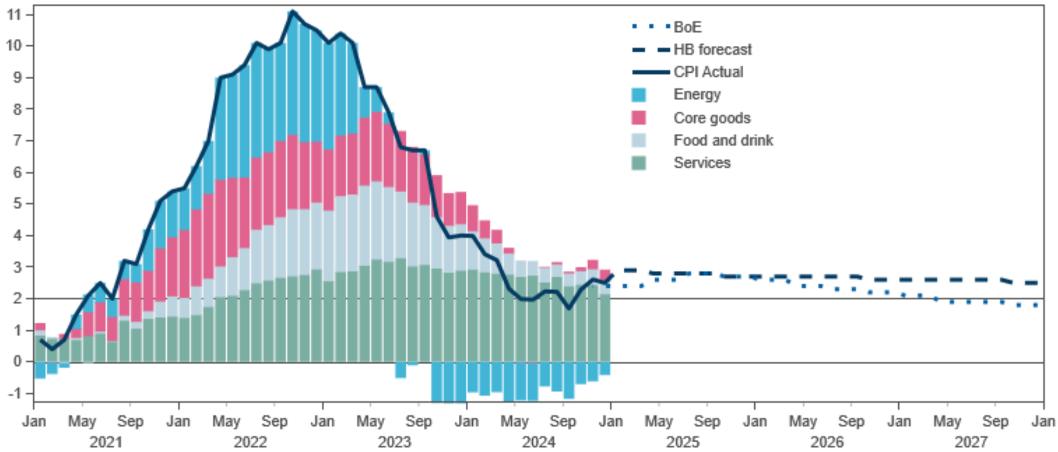
UK inflation proves sticky

Ongoing tightness in the labour market and poor productivity point to inflation remaining above target.

In line with our own forecasts, inflation has come in consistently above market expectations for much of the past year. Falling energy prices have now been washed out of the calculations, and earnings growth, currently running at 5.2 percent, is at a level roughly double that which is consistent with the two-percent inflation target. The slow slackening in the labour market and poor productivity growth point to inflation remaining above target, although we expect inflation to continue to slowly decline over our forecast horizon, which runs through 2027.

The Bank of England's current inflation forecast indicates that y-o-y CPI inflation will hit its target rate of 2.0 percent in early 2027, while the BoE's previous forecast from August 2024, that inflation would fall below target, has now been discounted.

UK inflation remains sticky



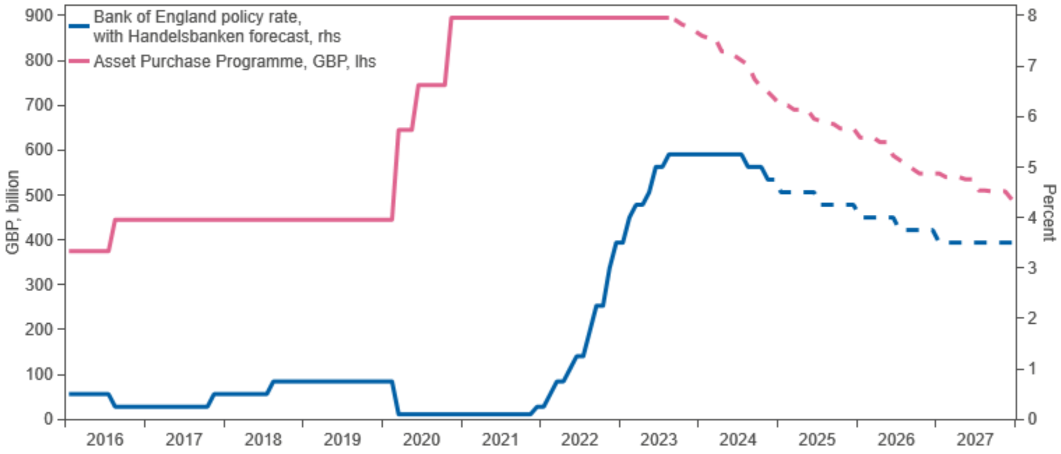
Sources: Macrobond, Handelsbanken and Bank of England

Pace of interest rate cuts slower than first anticipated

Only two Bank of England cuts expected in 2025, and policy rate not reaching lower than 3.5 percent by the end of 2027

UK interest rates peaked in midsummer 2023, and while we have seen two 25bp reductions since then, this pace, and the pace at which we expect interest rates to fall over 2025–27, is considerably slower than most investors initially anticipated. For this year, we now expect two further 25bp cuts, in February and August. Beyond that, we expect the sticky inflationary conditions to result in a very slow journey towards normality, with two 25bp cuts in 2026 and a final 25bp reduction in early 2027. This will take interest rates to 3.5 percent, which would still be 100bp above our assumed longer-term neutral policy rate.

Monetary policy gradually less restrictive



Sources: Macrobond and Handelsbanken

Sterling no longer tightly bound by dollar and euro

Further appreciation of the GBP against the EUR may materialise

Since 2022, monetary policy in the US, the eurozone and the UK has been responding similarly to the surge in inflation and, as inflation peaked, the subsequent falling away in interest rates. These tight policy parallels have kept Sterling valuations reasonably steady. Our view remains that interest rate differentials will be the key factor driving currency valuations. Looking to 2025 and beyond, the US and EU now have markedly differing growth and inflation prospects, and thus we expect monetary policy to diverge. The UK is set to see more slowly fading inflation, and thus interest rates will be higher than in the eurozone. As a result, after the elevated global uncertainty in early 2025 dissipates, we expect the GBP to appreciate against the EUR; our forecast is for the GBP/EUR to strengthen to 0.82 up until the end of 2027.

Data appendix

Key forecasts

The previous Handelsbanken Global Macro Forecast report from September 2024 is shown in parentheses.

Gross domestic product, annual, percentage change, y-o-y

	2024	2025	2026	2027
World	3.1 (3.2)	3.2 (3.2)	3.1 (3.2)	3.2 (–)
Advanced economies	1.8 (1.8)	1.9 (1.6)	1.6 (1.8)	1.6 (–)
Emerging economies	4.1 (4.2)	4.2 (4.3)	4.0 (4.2)	4.1 (–)
China	5.0 (4.8)	4.5 (4.5)	4.0 (4.2)	4.1 (–)
Eurozone	0.7 (0.8)	1.2 (1.4)	1.4 (1.5)	1.2 (–)
Norway, mainland economy	0.9 (0.7)	1.6 (1.6)	1.6 (1.7)	1.4 (–)
Sweden	0.5 (0.9)	1.9 (2.5)	2.7 (2.7)	2.2 (–)
United Kingdom	0.8 (1.1)	1.0 (1.6)	1.5 (1.6)	1.7 (–)
United States	2.8 (2.6)	2.5 (1.7)	1.6 (2.1)	1.9 (–)

Sources: Macrobond, IMF, national sources and Handelsbanken

Headline consumer price index, annual, percentage change, y-o-y

	2023	2024	2025	2027
Eurozone	2.4 (2.4)	2.0 (2.1)	2.0 (2.0)	2.0 (–)
Norway	3.2 (3.7)	2.6 (3.2)	2.6 (2.4)	2.3 (–)
Sweden, CPIF	1.9 (2.1)	1.9 (2.3)	2.0 (2.0)	2.0 (–)
United Kingdom	2.5 (3.0)	2.8 (2.9)	2.7 (2.6)	2.5 (–)
United States, PCE deflator	2.5 (2.5)	2.3 (2.0)	2.6 (2.2)	2.2 (–)

Sources: Macrobond, national sources and Handelsbanken

Unemployment, annual, percent of the labour force

	2024	2025	2026	2027
Eurozone	6.4 (6.5)	6.5 (6.7)	6.5 (6.5)	6.5 (–)
Norway, registered NAV	2.0 (2.0)	2.1 (2.2)	2.1 (2.2)	2.1 (–)
Sweden	8.4 (8.3)	8.3 (8.1)	7.9 (7.7)	7.5 (–)
United Kingdom	4.4 (4.5)	5.1 (4.8)	4.8 (4.6)	4.6 (–)
United States	4.0 (4.1)	4.1 (4.6)	4.3 (4.7)	4.3 (–)

Sources: Macrobond, national sources and Handelsbanken

Policy rate and longer-term swap rates, year end, percent

		2024	2025	2026	2027
Eurozone					
–	Policy rate	3.00 (3.25)	2.00 (2.25)	2.00 (2.00)	2.00 (–)
–	2y	2.2 (2.7)	2.3 (2.2)	2.2 (2.2)	2.2 (–)
–	5y	2.3 (2.5)	2.4 (2.4)	2.3 (2.3)	2.3 (–)
–	10y	2.4 (2.6)	2.5 (2.5)	2.5 (2.5)	2.5 (–)
Norway					
–	Policy rate	4.50 (4.50)	3.75 (3.50)	3.50 (3.00)	3.25 (–)
–	2y	4.2 (4.1)	3.9 (3.7)	3.7 (3.3)	3.6 (–)
–	5y	3.9 (3.8)	3.8 (3.6)	3.8 (3.6)	3.7 (–)
–	10y	3.9 (3.8)	3.9 (3.7)	3.9 (3.6)	3.9 (–)
Sweden					
–	Policy rate	2.50 (2.75)	2.25 (2.25)	2.25 (2.25)	2.25 (–)
–	2y	2.4 (2.3)	2.4 (2.3)	2.4 (2.4)	2.4 (–)
–	5y	2.5 (2.2)	2.5 (2.3)	2.5 (2.4)	2.5 (–)
–	10y	2.7 (2.3)	2.7 (2.4)	2.8 (2.6)	2.8 (–)
United Kingdom					
–	Policy rate	4.75 (4.75)	4.25 (3.75)	3.75 (3.00)	3.50 (–)
–	2y	4.3 (4.2)	4.3 (3.9)	4.1 (3.6)	3.8 (–)
–	5y	4.1 (4.1)	4.3 (3.9)	4.1 (3.6)	3.9 (–)
–	10y	4.1 (4.1)	4.4 (3.9)	4.2 (3.7)	4.0 (–)
United States					
–	Policy rate	4.38 (4.63)	3.88 (3.38)	3.63 (2.88)	3.38 (–)
–	2y	4.1 (3.7)	3.9 (3.2)	3.6 (3.0)	3.2 (–)
–	5y	4.0 (3.4)	3.9 (3.3)	3.5 (3.2)	3.3 (–)
–	10y	4.1 (3.4)	4.0 (3.4)	3.7 (3.4)	3.6 (–)

Sources: Macrobond, Bloomberg, national sources and Handelsbanken

Government bond yields, year end, percent

		2024	2025	2026	2027
Germany					
–	2y	2.1 (2.4)	2.1 (1.9)	2.0 (1.9)	2.0 (–)
–	5y	2.2 (2.2)	2.2 (2.1)	2.2 (2.0)	2.1 (–)
–	10y	2.4 (2.3)	2.5 (2.3)	2.4 (2.3)	2.4 (–)
Norway					
–	2y	4.1 (3.9)	3.8 (3.5)	3.6 (3.1)	3.5 (–)
–	5y	3.8 (3.6)	3.7 (3.4)	3.7 (3.4)	3.6 (–)
–	10y	3.8 (3.6)	3.7 (3.5)	3.7 (3.4)	3.7 (–)
Sweden					
–	2y	2.1 (2.0)	2.1 (2.0)	2.1 (2.1)	2.1 (–)
–	5y	2.2 (1.8)	2.2 (2.0)	2.3 (2.2)	2.3 (–)
–	10y	2.4 (2.1)	2.5 (2.2)	2.5 (2.4)	2.6 (–)
United Kingdom					
–	2y	4.4 (3.8)	4.2 (3.5)	4.0 (3.1)	3.8 (–)
–	5y	4.2 (3.9)	4.3 (3.6)	4.1 (3.3)	3.9 (–)
–	10y	4.6 (4.0)	4.4 (3.8)	4.2 (3.6)	4.0 (–)
United States					
–	2y	4.3 (3.9)	4.1 (3.4)	3.8 (3.2)	3.4 (–)
–	5y	4.4 (3.7)	4.2 (3.6)	3.8 (3.5)	3.7 (–)
–	10y	4.6 (3.9)	4.4 (3.9)	4.2 (3.9)	4.1 (–)

Sources: Macrobond, national sources and Handelsbanken

Exchange rates, year end

	2024	2025	2026	2027
EUR/USD	1.04 (1.10)	1.04 (1.12)	1.06 (1.14)	1.08 (–)
EUR/GBP	0.84 (0.84)	0.82 (0.83)	0.82 (0.83)	0.82 (–)
GBP/USD	1.24 (1.31)	1.27 (1.35)	1.29 (1.37)	1.32 (–)
USD/JPY	157.00 (142.00)	151.00 (136.00)	143.00 (133.00)	135.00 (–)
USD/CNY	7.30 (7.15)	7.40 (7.00)	7.30 (6.90)	7.20 (–)
EUR/CHF	0.94 (0.97)	0.95 (1.01)	0.96 (1.04)	0.97 (–)
EUR/NOK	11.60 (11.50)	11.40 (11.15)	11.20 (10.95)	11.00 (–)
EUR/SEK	11.48 (11.15)	11.35 (10.75)	11.05 (10.55)	10.85 (–)

	2024	2025	2026	2027
USD/SEK	11.05 (10.14)	10.91 (9.60)	10.42 (9.25)	10.05 (–)
EUR/SEK	11.48 (11.15)	11.35 (10.75)	11.05 (10.55)	10.85 (–)
CHF/SEK	12.19 (11.49)	11.95 (10.64)	11.51 (10.14)	11.19 (–)
NOK/SEK	0.99 (0.97)	1.00 (0.96)	0.99 (0.96)	0.99 (–)
GBP/SEK	13.66 (13.27)	13.84 (12.95)	13.48 (12.71)	13.23 (–)
JPY/SEK	7.04 (7.14)	7.23 (7.06)	7.29 (6.96)	7.44 (–)
CNY/SEK	1.51 (1.42)	1.47 (1.37)	1.43 (1.34)	1.40 (–)

	2024	2025	2026	2027
USD/NOK	11.17 (11.17)	10.96 (9.96)	10.57 (9.61)	10.19 (–)
EUR/NOK	11.60 (11.60)	11.40 (11.15)	11.20 (10.95)	11.00 (–)
CHF/NOK	12.32 (12.32)	12.00 (11.04)	11.67 (10.53)	11.34 (–)
GBP/NOK	13.81 (13.81)	13.90 (13.43)	13.66 (13.19)	13.41 (–)
SEK/NOK	1.01 (1.01)	1.00 (1.04)	1.01 (1.04)	1.01 (–)
JPY/NOK	7.11 (7.11)	7.26 (7.32)	7.39 (7.22)	7.54 (–)
CNY/NOK	1.53 (1.53)	1.48 (1.42)	1.45 (1.39)	1.41 (–)

Sources: Macrobond, national sources and Handelsbanken

Footnotes

1 For more on our proprietary misery indices, see the theme article on households' economic situation *Households equipped to support demand*, pages 9–13 in the September 2024 Global Macro Forecast report. ↩

2 For more on economic effects of Trump's full policy agenda, see our box *US election risks hurting economy* on pages 7–8 in the September 2024 Global Macro Forecast report. ↩

3 More precisely, both indirect first round effects and second round effects of the original inflation surge. ↩

4 See theme article in the September 2023 Global Macro Forecast report. Since then unit labour cost growth has eased in some, but not all, economies, partly through welcome productivity growth. And similarly, unit profit growth has eased or turned negative in some economies. All told, developments helping to solve the Gordian knot of disinflation. ↩

5 See our Macro Comment *Rising r* revisited – Phoenix or Icarus?*, 5 June 2024. ↩

6 Term premium is the compensation investors demand for bearing growth and inflation risks. Since today's challenged public finances situation in many countries cause risks to for example future lending needs, this too may drive the term premium. ↩

7 For more on the disconnect between markets, and the risk and uncertainty picture, see IMF Global Financial Stability Report, October 2024. ↩

8 The PBOC will primarily face a demand loss, and loosen policy to cushion the blow to exports, not least via currency depreciation. ↩

9 See Risk and uncertainty – Alternative scenarios, particularly p. 90–92 in *Tealbook A*, Federal Reserve, September 2018. Other tariff scenario analysis include: *Global: A second Trump presidency adds risk to our outlook*, Oxford Economics' World Economic Prospects Monthly, December 2024, which has analysis on several interesting adverse scenarios but differs from our assumptions by seeing a more dovish ECB policy response in all scenarios. Policy Pivot, Rising Threats, the IMF's World Economic Outlook, October 2024, which differs from our assumptions not least by being based on full redistribution of tariff revenue to households. ↩

10 For a description of our Misery Index, see Macro Comment Sweden: *After inflation misery – households once again equipped to support the recovery* ↩

11 The ECB wage tracker: your guide to euro area wage developments ↩

12 Country A is said to have a revealed comparative advantage in a given product when its share of total exports exceeds the same share for the world as a whole, see unctadstat.unctad.org/EN/RcaRadar.html ↩

13 Al-Haschimi, A. and Spital, T. (2024) "The evolution of China's growth model: challenges and long-term growth prospects", ECB Economic Bulletin, Issue 5/2024. ↩

14 "hyperscalers" refers to companies with the ability to scale their operations and infrastructure rapidly and efficiently) such as Amazon Web Services (AWS), Microsoft Azure and Google Cloud Platform (GCP). ↩

15 EIB (2024) "Investment barriers in the European Union 2023" ↩

16 European Commission, 2024 State of the Digital Decade package | Shaping Europe's digital future ↩

17 IMF (2024) Fiscal Monitor October 2024: Putting a Lid on Public Debt ↩

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