ECONOMIC OUTLOOK
THE GOTHENBURG REGION

+6.8% growth in wage sum

+1.8% employment growth

#2 2018
A flourishing economy

The latest economic outlook report shows that the region’s economy is prospering. More sectors than previously are benefitting from favourable global developments, as well as from domestic consumption. Employment is increasing strongly, which has led to a sharp increase in growth in wage sum in the region. Unemployment remains the lowest of the metropolitan regions, now down to a level not seen since 2008. Our export-weighted GDP growth index does, however, indicate that the favourable global demand could weaken somewhat towards the end of the year.

TRADE AND INDUSTRY

Slight slowdown in key markets moving forwards...

The economies comprising the region’s most important markets had a favourable start to 2018. The US economy in particular is exhibiting strong growth, and with the country’s inflation increasing, the Fed is preparing to raise interest rates during the year. One concern, however, centres on Trump’s statements about introducing new targeted import tariffs, including cars, which could impact the region’s economy. Foreign trade between Sweden and its developing well, in particular passenger car exports to China has increased strongly. The Gothenburg region’s export companies represent a large share of the trade value in this exchange. With China’s economy expected to enjoy 6.6 per cent growth, demand will remain high in the country throughout 2019. However, one concern with China is the risk associated with the rising credit debt in the country as the economy has grown increasingly larger. Most indicators predict that 2018 will be a good year for Germany, with increased private consumption, strong international trade and increased business investments. In addition, the prosperous Germany having a ripple effect throughout the eurozone, the Netherlands and France are also expected to show good economic growth. Closer to home, Norway and Denmark have predicted growth rates of around 2 per cent, while the Finnish economy is expected to show slightly higher growth. With the economies of the nearest neighbours, the eurozone, the USA and China all performing well at the same time, the high demand seen in the Gothenburg region is perhaps to be expected. Almost 70 per cent of the region’s exports go to these economies.

However, many forecast institutes, including the IMF, are flagging for slower growth for the region’s important trading markets come 2019. However, even if the GDP growth forecasts for these countries are lowered, they remain at reasonably good levels.

…so too in the Swedish economy

Sweden’s GDP increased by 0.7 per cent during the first quarter of 2018 compared with the fourth quarter of 2017. This increase was largely attributable to gross fixed capital formation. Unfortunately, total net trade has burdened Sweden’s GDP growth between the two most recent quarters. On an annual basis, GDP growth was 3.3 per cent, which is considerably better than the 2.4 per cent average for the 2000s. However, several forecasts predict a loss of momentum in Sweden’s GDP growth come 2019.

Continued economic boom with somewhat dampened expectations

The Gothenburg region’s economy is prospering, with more sectors experiencing an economic boom compared with this past autumn. The economic outlook index for spring 2018, compiled by Region Västra Götaland and Statistics Sweden, was 46 for the Gothenburg region. This result is, however, somewhat lower than expected (52), but does correspond to an increase of 2 units. Looking ahead the region’s companies are optimistic that the economic boom will continue in the autumn with economic index of 52 expected. The interval for a normal business cycle is between -15 and +15, while the interval for an economic boom is 40 to 100.

More industries enjoying economic booms

Unlike the previous survey, where IT services boasted the most favourable economy, the automotive industry has taken pole position in the spring survey with an economic tendency indicator of 74. Companies operating in wholesale, the engineering industry, business services, IT services, the construction industry and the chemical industry are also experiencing a boom at the moment. In comparison with the previous survey in the autumn, the largest improvement in economic tendency was seen by wholesale trade.

Among the various industrial sectors currently experiencing economic booms, the broader common denominators are increases in global production demand and slowly increasing employment levels. The biggest obstacle to industrial companies expanding is the slight wavering in this currently favourable global demand. Compared with the autumn survey, the construction industry has slowed, albeit while experiencing a continuing economic boom. The backlog of orders is higher, but incoming orders are somewhat lower. Recruitment has mainly been conducted to meet...
current workloads. Increased domestic and global sales have contributed to the currently strong position held by wholesale trade, resulting in sharp increases in both employment levels and profitability. Although 6 out of 10 IT companies have increased their employment levels, recruiting skilled IT workers remains a challenge.

The forecast for autumn 2018 shows that IT services, business services, wholesale trade and the automotive industry believe that the boom will further improve. Companies in the food and chemicals industries also show great optimism. Conversely, companies in the engineering, construction and chemical industries believe that the favourable situation is weakening, although the economic boom will continue.

Eight years of job growth

The Gothenburg region’s business environment continues to create job opportunities on a large scale. This period is the 32nd consecutive quarter with jobs growth. For the first quarter of 2018, employment growth in the Gothenburg region was 1.8 per cent year-on-year. Some 532,000 people in the region are in employment, compared with 522,000 in the same period last year. The growth rate in the Gothenburg region was somewhat weaker than for all of Sweden (1.9%). Employment growth in the Malmö region was 1.4 per cent, while the figure for the Stockholm region was 2.3 per cent.

In this period too we see that the three major economic drivers - the IT, construction and automotive industries - continue to generate employment in the region. For example, NCC has announced that it needs to recruit 500-600 employees in the construction sector. The latest quarter also shows that some areas of trade, wholesale in particular, are moving forward strongly with increasing employment.

Lowest unemployment in the region since 2008

Good performance in the labour market is a sign that the business environment is thriving. Unemployment in the Gothenburg region remains the lowest of Sweden’s metropolitan regions. In May 2018, the unemployment rate was at 5.4 per cent in the Gothenburg region (-0.1 percentage points on an annual basis). This is the lowest level recorded in the region since December 2008. Just under 28,000 people in the Gothenburg region are unemployed or in labour market initiatives. Unemployment was 5.8 per cent (-0.2 percentage points on an annual basis) in the Stockholm region and 9.6 percent (-0.4 percentage points on an annual basis) in the Malmö region. The unemployment rate for Sweden as a whole was 6.8% (-0.4%).

Taking into account all groups, unemployment is falling and the largest drop is seen among foreign-born young adults. However, unemployment remains high among the region’s foreign-born residents. In May 2018, unemployment among foreign-born individuals aged 16-64 was 15.5 per cent (for Sweden as a whole, the figure was 20.2%). Among foreign-born young adults in the Gothenburg region, just over one in five members of the workforce were unemployed (for Sweden as a whole, more than one in three foreign-born young adults was unemployed).

Unemployment is decreasing across all groups, which is positive. Many labour market initiatives deliver results and make it easier to quickly get a foot in the labour market. However, our assessment is that there remains a need for strenuous efforts to further reduce the high unemployment seen among foreign-born residents.

Record job vacancies and few redundancies

Never before has the number of new vacancies for permanent positions been at such a high level. In other words, there are many job opportunities in the region that are difficult to fill (note that there may be some duplication in the new job vacancy statistics, but the indicator is still assessed to be relevant to follow). During the period March to May 2018, an average of 9,618 new job vacancies for permanent positions per month were advertised in the Gothenburg region (+16.3% on an annual basis). The areas with the most new vacancies are business services, healthcare and nursing, and information and communication.

Redundancies remain low and well below the median for the 2000s of 323 redundancies per month. During the period March to May 2018, an average of 160 redundancies were announced per month. Year-on-year, this is a drop of a full 41 per cent. No major redundancies have been announced in the Gothenburg region during the most recent period. However, biscuit manufacturer Göteborgs Kex plans to relocate its factory to Latvia and this will eventually impact the Gothenburg region’s redundancy figures.
**OTHER INDICATORS**

**Record-low office space vacancy rate**

According to JLL’s property market report, the vacancy rate in Gothenburg continues to fall and is now at a record-low level. In the first quarter of 2018, Gothenburg recorded an office vacancy rate of only 3.6 percent (-2.1 percentage points on an annual basis). No new office space was completed during the quarter, but some 122,000 m² were under construction and just over 19,500 m² of office space is expected to be completed in 2018. Most of the ongoing construction is in very central areas of Gothenburg and East Gothenburg. Year-on-year, office rents rose the most in East Gothenburg, the CBD and Norra Alvsstranden.

**Flat prices climb again in the short term**

Fluctuating housing prices in the metropolitan regions have been a hot topic lately. During the past 1-3 months, flat prices have started rising again in Gothenburg, Malmö and even Stockholm, despite the marginal fall seen over the past month. However, all metropolitan municipalities have seen substantial drops in flat prices compared with a year back, with the biggest decrease seen in Stockholm. House prices in the Gothenburg region have also fallen on an annual basis, although the drop is not as marked as for flats. If we look back 1-6 months, house prices have in fact increased in the Gothenburg region. House prices in the Malmö region have continued to increase on an annual basis, while house prices in the Stockholm region are moving in the opposite direction.

**Sharp increase in private sector wage sum**

Increased employment in the Gothenburg region’s business environment is reflected in the strong growth in wage sum. During the first quarter of 2018, the real total wage sum in the Gothenburg region increased by 6 percent compared with the same period the previous year. In real monetary terms, the increase was just over SEK 2.8 billion, with 86 per cent of the growth created by the private sector in the Gothenburg region. In terms of wage sum in the private sector in the Gothenburg region, the increase in real terms was almost 7 per cent on an annual basis (about SEK 2.4 billion), to be compared with the national average of 4.4 per cent. This is yet another sign that the region’s knowledge-based industry, alongside a rapidly expanding service sector, is booming.

**Continued strong population growth**

The population in the Gothenburg region continues to grow strongly and is outpacing the national average. At the end of the first quarter of 2018, the Gothenburg region had a population of 1,015,974. Population growth from the fourth quarter of 2017 to the first quarter of 2018 was 3,405 new inhabitants. A birth surplus accounted for about a quarter of the increase in population while the remaining three quarters were the result of a migration surplus. Around 2,000 newly arrived immigrants who were granted residency contributed to population growth during the first quarter. There are about 4,500 new arrivals in the region who are awaiting decisions regarding their residency status.

**Air passengers and guest nights continue to increase**

By the end of the first quarter of 2018, Göteborg Landvetter Airport had seen an average of just over 513,000 air passengers per month (+2.8% on an annual basis). Strong growth was seen mainly in travel outside Europe, although travel within Europe continued to grow throughout the quarter. Outside Europe, the increase in air passengers is greatest to and from Thailand, India and the USA.

**New car sales falling somewhat**

Trends in the consumption of durable goods, such as the number of newly registered cars, are important indicators when assessing the state of the private economy in the region. Figures for the first quarter of 2018 show that new car sales fell somewhat. Despite this, the quarter was still the second strongest ever for this particular period with more than 10,600 newly registered cars in the region (-1.6% on an annual basis).

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**TABLE SUMMARISING THE ECONOMIC SITUATION IN THE GOTHENBURG REGION – COMPARISON WITH CORRESPONDING PERIOD THE PREVIOUS YEAR**

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>2018</th>
<th>2017</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic tendency, spring</td>
<td>46</td>
<td>43</td>
<td>+3 units</td>
</tr>
<tr>
<td>Total wage sum (real SEK billion), quarter 1</td>
<td>49.5</td>
<td>46.7</td>
<td>+6.0%</td>
</tr>
<tr>
<td>Private sector wage sum (real SEK billion), quarter 1</td>
<td>37.6</td>
<td>35.2</td>
<td>+6.8%</td>
</tr>
<tr>
<td>People in employment, quarter 1</td>
<td>531,600</td>
<td>522,000</td>
<td>+1.8%</td>
</tr>
<tr>
<td>Unemployment 16-64 years, May</td>
<td>5.4%</td>
<td>5.5%</td>
<td>-0.1% points</td>
</tr>
<tr>
<td>Unemployment among foreign-born 16-64 years, May</td>
<td>15.5%</td>
<td>16.1%</td>
<td>-0.6% points</td>
</tr>
<tr>
<td>Unemployment 18-24 years, May</td>
<td>5.6%</td>
<td>5.9%</td>
<td>-0.3% points</td>
</tr>
<tr>
<td>Unemployment among foreign-born 18-24 years, May</td>
<td>21.2%</td>
<td>23.9%</td>
<td>-2.7% points</td>
</tr>
<tr>
<td>Job vacancies, March – May (monthly average)</td>
<td>9,618</td>
<td>8,273</td>
<td>+16.2%</td>
</tr>
<tr>
<td>Vacancy rate for office space in Gothenburg, quarter 1</td>
<td>3.6%</td>
<td>5.7%</td>
<td>-2.1% points</td>
</tr>
<tr>
<td>Population, quarter 1</td>
<td>1,015,974</td>
<td>1,001,032</td>
<td>+1.5%</td>
</tr>
<tr>
<td>New car registrations, quarter 1</td>
<td>10,615</td>
<td>10,786</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Air passengers, quarter 1 (monthly average)</td>
<td>513,442</td>
<td>499,461</td>
<td>+2.8%</td>
</tr>
<tr>
<td>Guest nights, quarter 1 (monthly average)</td>
<td>301,971</td>
<td>298,603</td>
<td>+1.1%</td>
</tr>
</tbody>
</table>

Source: Statistics Sweden