

Fast Comment Sweden

Negative electricity price to paper over cracks in Riksbank's inflation forecast; September CPI preview

- Headline CPIF inflation expected at 3.7%; second sharp drop in a row
- Electricity price at rock bottom during second half of September - the only way is up
- CPIF excluding energy expected to surpass the Riksbank's fresh forecast; we see a 6.8% print

Headline CPIF inflation expected at 3.7%; second sharp drop in a row

We expect headline CPIF inflation to plummet to 3.7% in September, y-o-y, from 4.7% in August - a print which was also a steep decline from July. While that was largely a negative base effect, the decline in September is more about price changes here and now, namely a sharp drop in electricity prices. The Nordic electricity spot price tumbled in the second half of September, implying that the Riksbank did not have these data at hand when finalising its latest monetary policy report, nor did we when penning the Global Macro Forecast released just over two weeks ago.

While incoming data has resulted in today's inflation nowcast being marginally lower than that of our recent macro report, it still points to CPIF excluding energy (CPIFXE) close to 6.8%, y-o-y in September, 0.2pp above the Riksbank's call (see tables and charts below). All told, the electricity price drop looks set to paper over the cracks in the Riksbank's CPIFXE forecast, as the CPIF figure turns out to be exactly in line with the central bank's expectation. We stick to our forecast for a policy rate hike in November, to 4.25%.

Electricity price at rock bottom - the only way is up

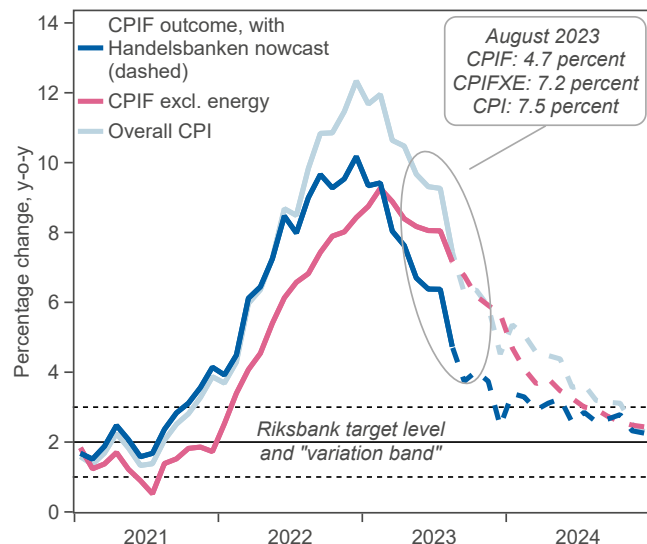
September temperatures were at a record high, with several places beating the previous Sweden September record from 2006, and a host of locations breaking their own respective records (Uppsala perhaps being the most astounding, as the September 1775 observation was exceeded). The warm weather helped drive down electricity prices as heating needs were minimal. On top of this, hydro power reservoirs are at their highest relative levels in years (see chart below). All told, the electricity price hit rock bottom in September, with some regions even printing negative at least one day. But the futures market has not dramatically priced down electricity this winter, meaning that we likely face a steep rise in the spot price over the next few months, albeit to levels well below last winter's elevated prices.

This means that our CPIF inflation nowcast is on the low side of our September Global Macro Forecast for a few months, but subsequently closes the gap. This is also due to the higher oil price futures curve, driving up fuel prices more than anticipated.

CPIFXE expected to surpass the Riksbank's fresh forecast

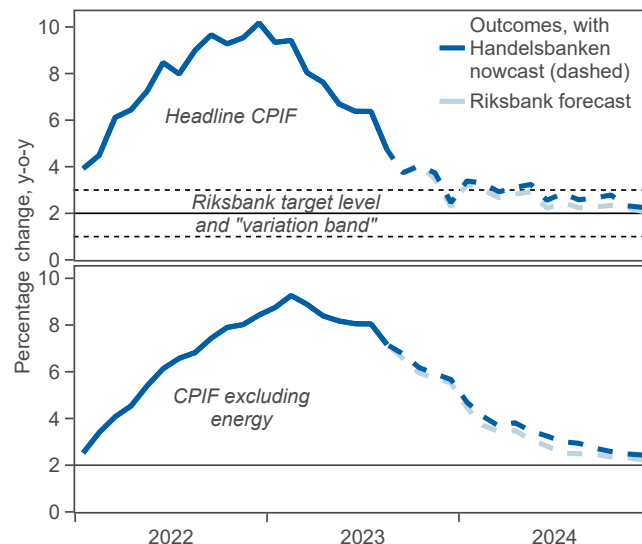
The totality of the incoming data has led us to revise down our CPIFXE outlook somewhat, implying that the difference versus the Riksbank's forecast has decreased. More disinflationary signals from the recent krona appreciation and the latest PPI have been partly offset by a halt in the previous easing of firms' pricing plans. However, we still maintain a higher forecast than the Riksbank for 2024, with the difference peaking at 0.5pp in July. Key to our outlook is that profits as well as labour costs are driving inflation in this second phase of the inflation crisis (see chart below), and it will take time to complete the disinflation journey (see links in the Appendix below, PDF version only).

Inflation outcomes, and Handelsbanken forecast



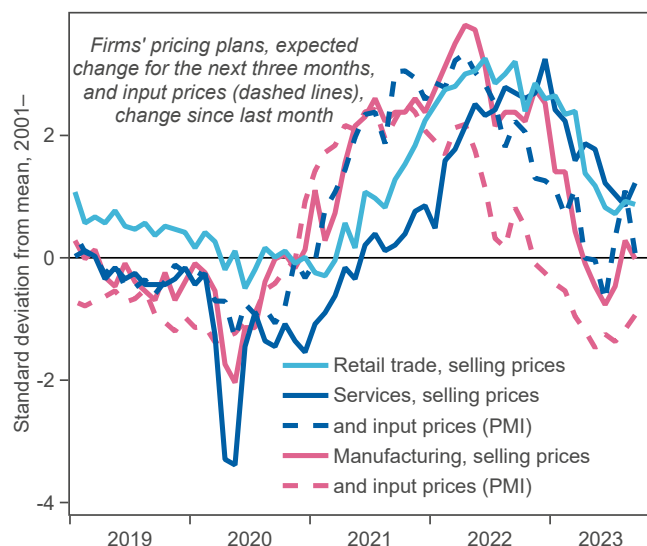
Sources: Macrobond, Statistics Sweden and Handelsbanken

Inflation forecasts: Riksbank vs. Handelsbanken



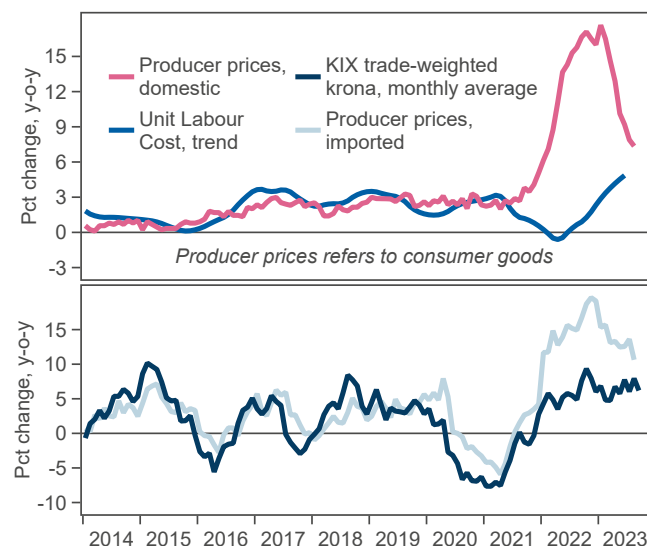
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Leading indicators; Sentiment surveys



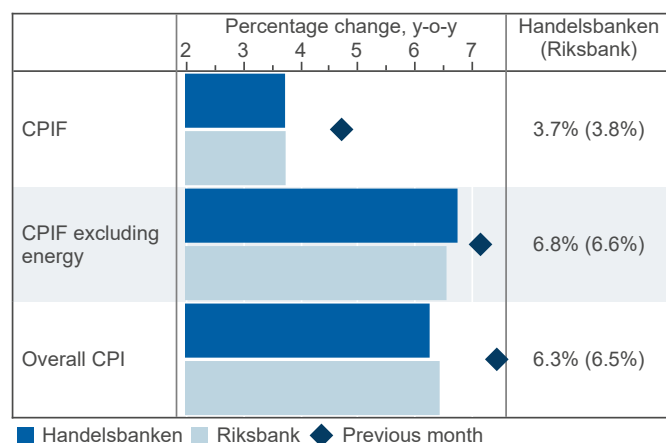
Sources: Macrobond, NIER, SILF/Swedbank and Handelsbanken

Leading indicators; Pipeline pressures

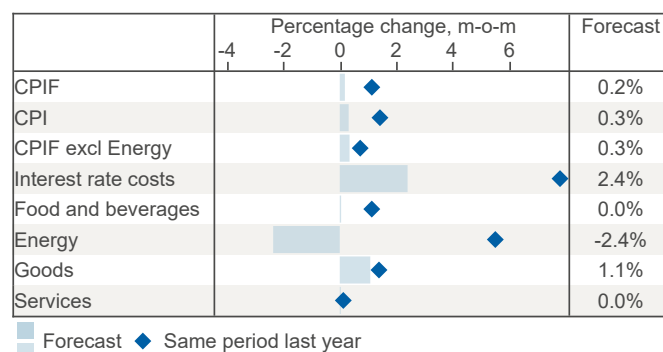


Sources: Macrobond, Statistics Sweden and Handelsbanken

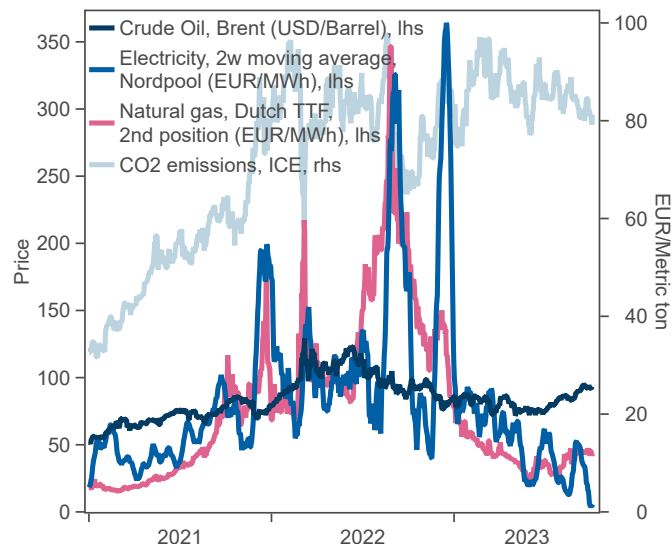
September CPI forecast: Key aggregates



September CPI forecast: Component aggregates

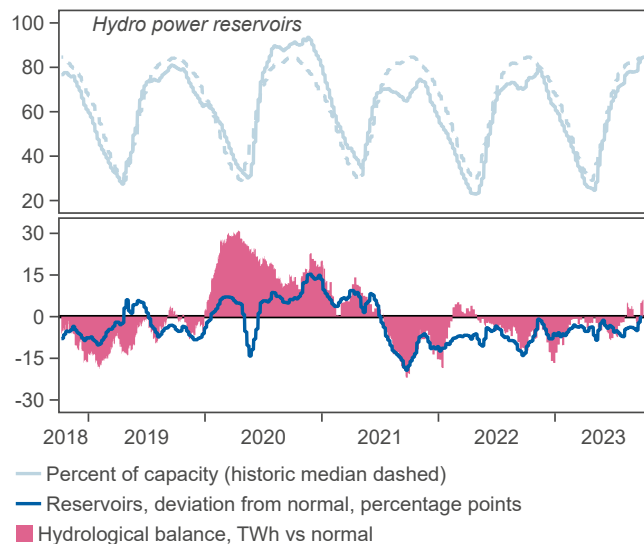


Energy commodity prices



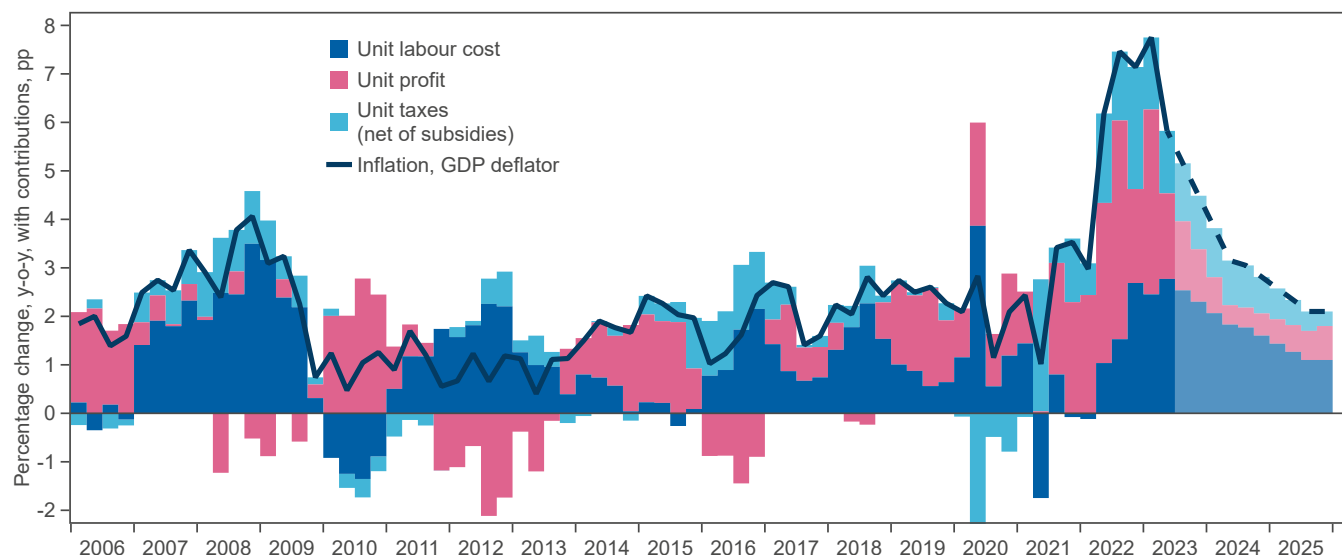
Sources: Macrobond and Handelsbanken

Nordic hydro power conditions



Sources: Bloomberg, Markedskraft, Macrobond and Handelsbanken

Inflation driver hand-off: From profits to labour costs



Sources: Macrobond, Eurostat and Handelsbanken

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Appendix: Handelsbanken research on inflation and monetary policy

The most recent regular Global Macro Forecast report ([Swedish](#) / [English with international focus](#))comments and analyses "Falling headline, moderating underlying inflation"; [August CPI report](#)"The Riksbank hikes to 4.00 percent, but slightly dovish rate path"; [Riksbank September monetary policy decision](#)"Rising long yields with deficits in focus"; Swedish Rate Wrap, Sept 29, 2023 ([English](#) / [Swedish](#))

Key in-depth analyses

Inflation

"Brave new nominal world", September 2023 ([Swedish, p. 20-23 here](#) / [English, p. 9-12 here](#))"The green transition will be inflationary", January 2023 ([p. 13-14 here](#))"What stops a new high-inflation regime", September 2022 ([p. 15-17 here](#))

Monetary policy

"Neutral interest rates on the rise again", January 2023 ([p. 7 here](#))

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