

# Fast Comment Sweden

## Riksbank to ramp up policy tightening after falling behind inflation curve again; May CPI report

- Inflation passing new milestones, with CPIF at 7.2 percent, and CPIF excluding energy at 5.4
- Triple drivers – high demand, supply shocks, expectations rise – calls for prompt Riksbank
- We change our Riksbank call from one 50 bp rate rise (June), to add another one (September)

### Inflation passing new milestones; CPIF at 7.2 percent, and CPIFXE at 5.4

The May CPI report shows headline CPIF inflation picking up to 7.2 percent y-o-y, primarily driven by an acceleration in CPIF excluding energy (CPIFXE), to a 5.4 percent y-o-y pace. This means inflation has passed another couple of milestones, and the outcome reinforces our view that inflation is trending above the Riksbank's April forecast, which was for CPIF 6.3 percent, CPIFXE 4.8 percent.

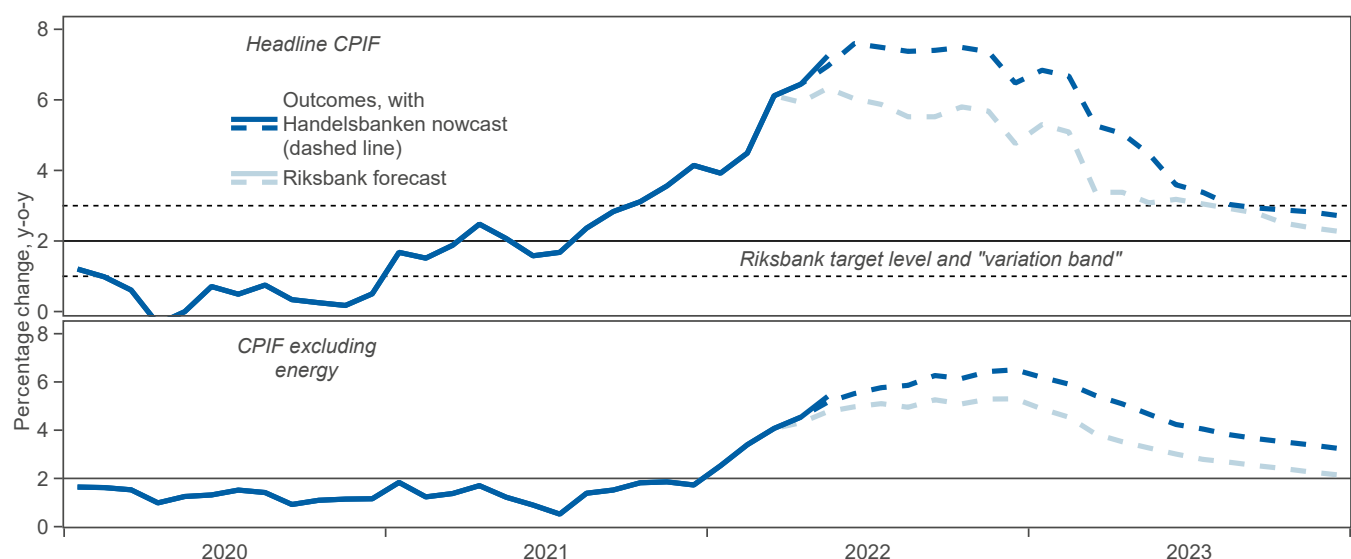
### Triple drivers - demand, supply, expectations - calls for prompt Riksbank

The May inflation surprise, versus our forecast, was broad, with food, goods and services all playing a part. It is also clear that inflation is not only broadening even more, it is also deepening. One signal is the jaw-dropping fact that almost 70 percent of the CPI price changes are faster than +4 percent, y-o-y. Another signal is that a range of technical indicators of underlying inflation continue to surge (see graph below). Behind it all are at least three broad categories of drivers, both supply shocks (mainly international), high demand (in large part domestic) and rising inflation expectations (see chart pack below). This implies that the Riksbank must act forcefully to bring inflation back under control.

### We change Riksbank call from one 50 bp rate rise (June), to add another (Sept)

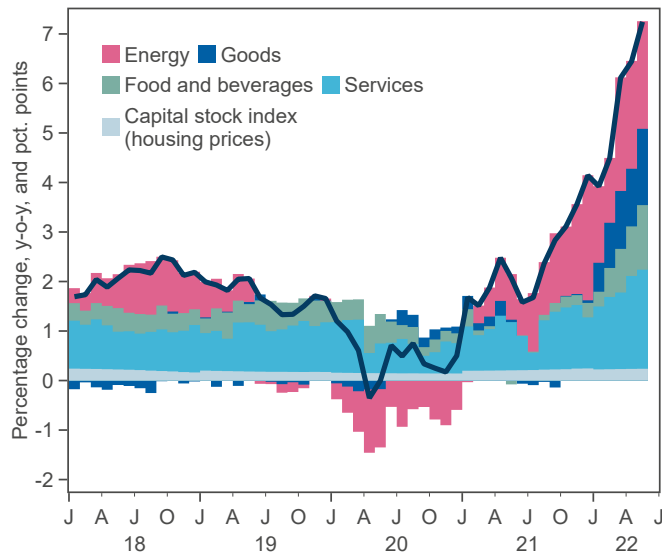
We no longer think the Riksbank settles for a moderate, front-loaded ramp up of its planned tightening, with a 50 bp rate rise in June followed by 25 bp hikes at every meeting until, and including, April 2023. After today's even hotter inflation print, we change our forecast to a more aggressive Riksbank move, with a 50 bp hike in September as well. This should be compared with the Riksbank's April communication for "two to three" 25 bp hikes during the rest of 2022.

#### Inflation vs. forecasts



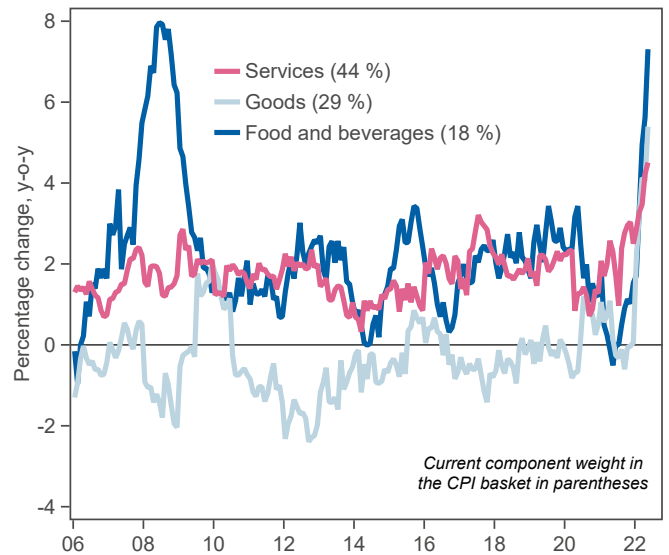
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

### Broad-based inflation, in terms of contributions



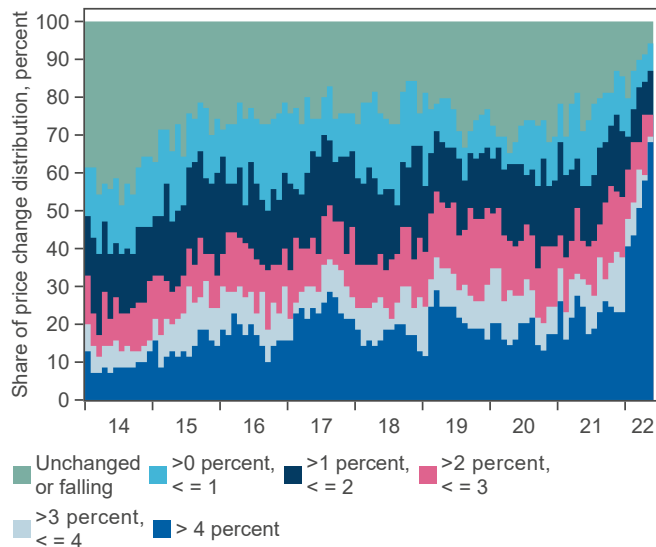
Sources: Statistics Sweden and Handelsbanken

### And all main aggregates rise unusually fast



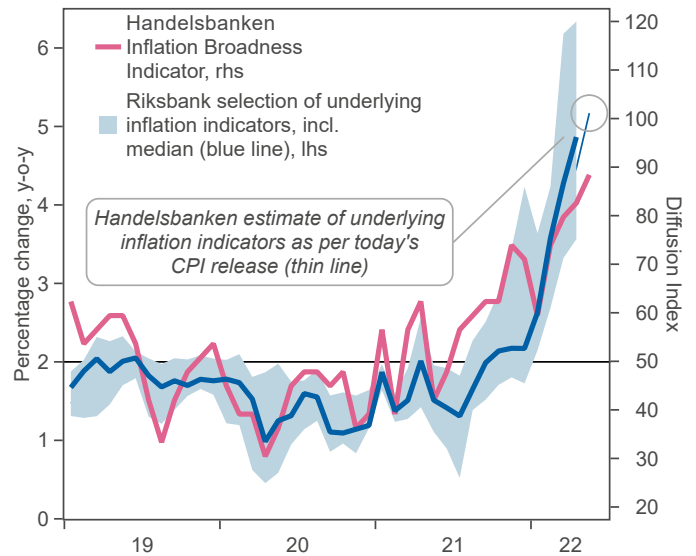
Sources: Statistics Sweden and Handelsbanken

### Most price rises are jaw-droppingly fast



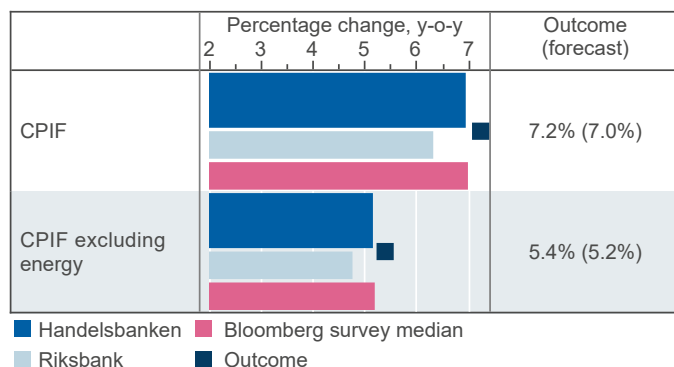
Sources: Statistics Sweden and Handelsbanken

### Underlying inflation continues to rise



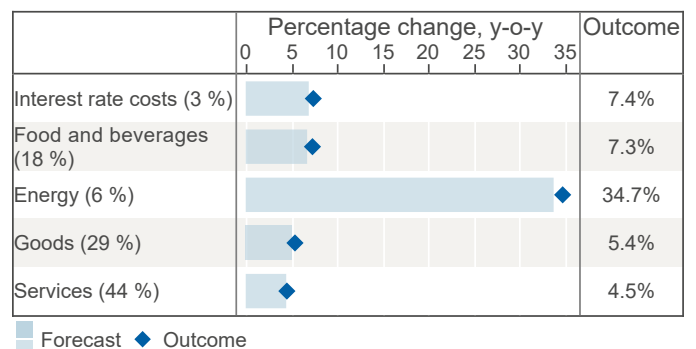
Sources: Macrobond, Statistics Sweden, Riksbank and Handelsbanken

### May CPI report: Much higher than Riksbank forecast



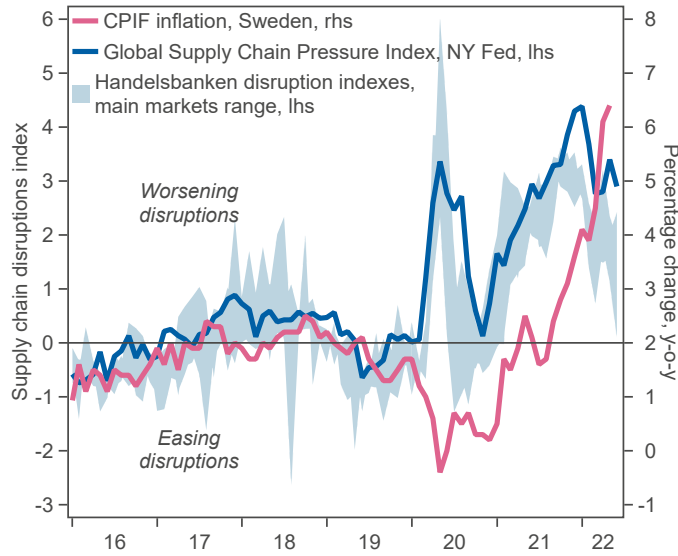
Sources: Bloomberg, Macrobond, Statistics Sweden and Handelsbanken

### May CPI: A broad-based, but overall moderate surprise



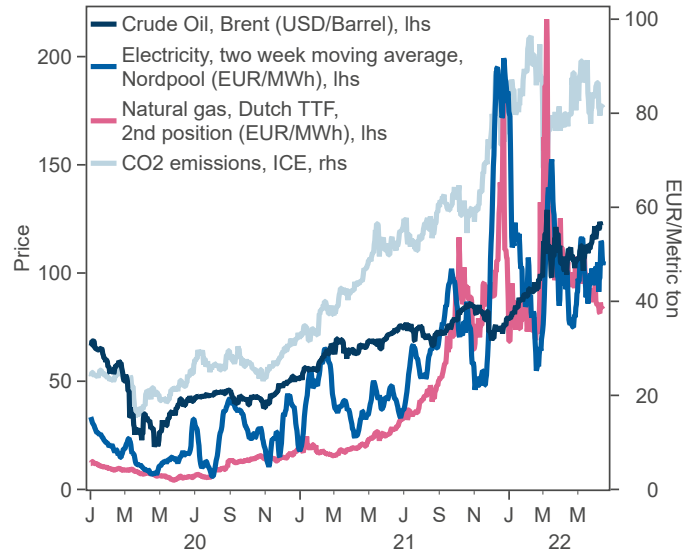
Note: Component weight in CPI in brackets. Sources: Handelsbanken and Statistics Sweden

### Supply chain disruptions hit inflation with a lag



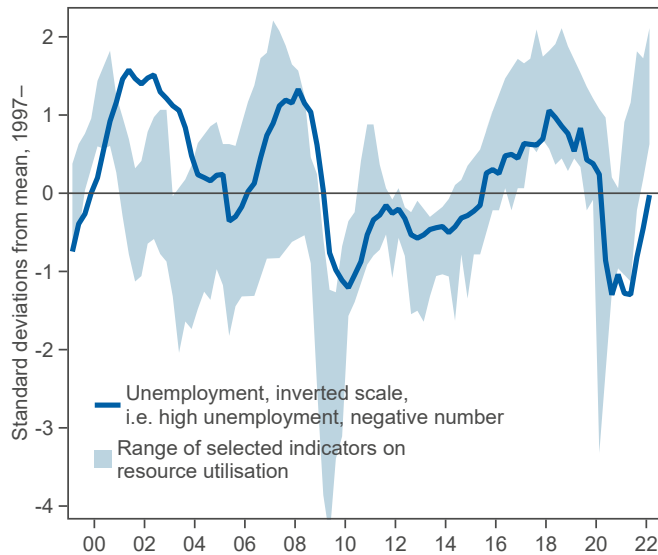
Sources: Macrobond, Statistics Sweden, S&P Global, FRB of New York and Handelsbanken

### Supply shocks have also driven energy prices



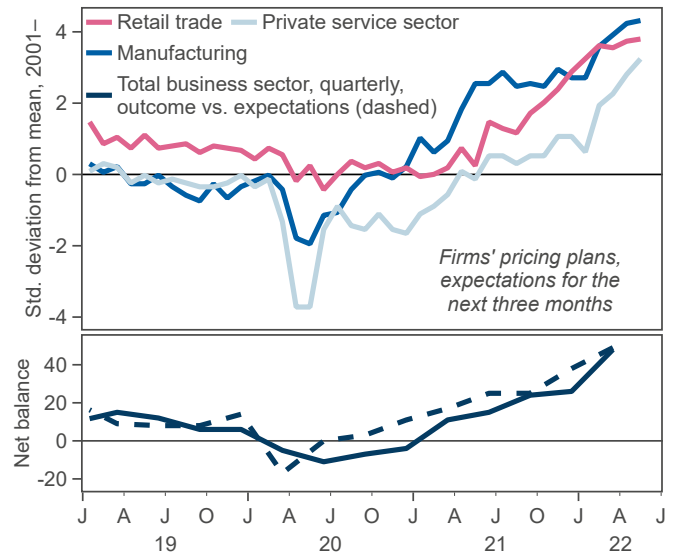
Sources: Macrobond, EIA, ICE and Nordpool

### Many indicators signal high demand



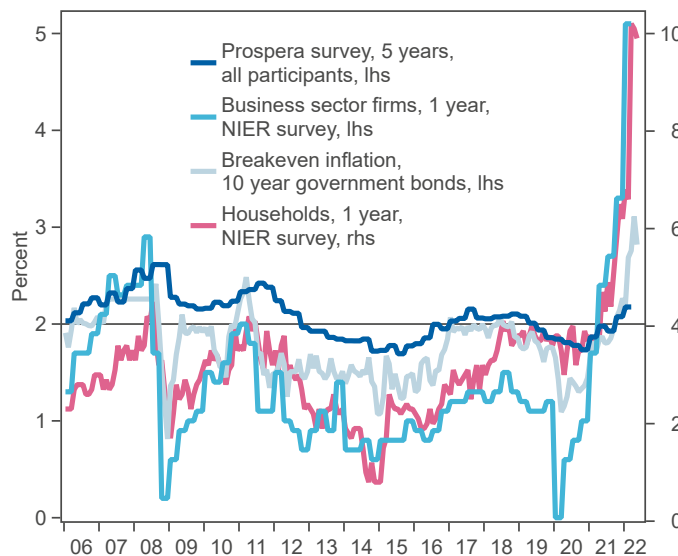
Sources: Macrobond, NIER, Statistics Sweden, PES

### Firms have pricing power and are passing on cost rises



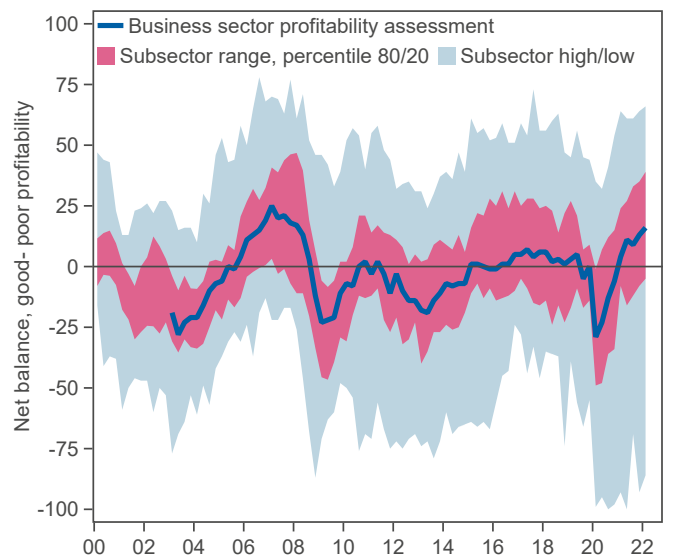
Sources: Macrobond and NIER

### Inflation expectations surging



Sources: Macrobond, Bloomberg, Kantar Prospera and NIER

### Even in this climate, firms' profitability have stayed high



Sources: Macrobond, NIER and Handelsbanken

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