

Fast Comment Sweden

Inflation up – short-lived or sticky? April CPI report

- Marginal CPIF inflation uptick to 2.3 percent – still below Riksbank forecast
- Drop in volatile prices masks stronger-than-anticipated sticky prices
- We keep expecting a slow Riksbank cutting cycle ahead

Marginal CPIF inflation uptick to 2.3 percent – still below Riksbank forecast

The April CPI report shows headline CPIF inflation, if anything, rising to 2.3%, y-o-y, from March's 2.2% – an outcome still well below the Riksbank forecast after the downside surprise last month.

The surprise was focused in volatile prices, with sharper-than-forecast drops in fruit and vegetables, energy prices and international travel. The more important signal was the core services, core goods and core foods all surpassed our estimates, signalling still above-normal underlying inflation (see graphs). Some of the food price pickup is likely a rebound after last month's Easter holiday promotions, but the upside surprise was substantial especially given the fact that several retailers claim to have launched wide-ranging price cuts lately.

CPIFXE inflation – one indicator of underlying inflation – turned out at 2.9% y-o-y. All told, inflation outcome momentum is currently in line with reaching the 2-percent target ahead.

Underlying inflation holds up – repeated again next month?

Looking ahead to the May CPI report, today's upside surprise may be repeated. Not least, we have the gigantic Taylor Swift concert weekend coming up May 17–19. Hotels and many other businesses now change their pricing swiftly with the ebb and flow of demand, which could create some inflation spike in May. But should such effects not be strictly temporary and hence ignored? Maybe not. It could also signal a continued risk of sticky inflation, because firms successfully making full advantage via such (temporary) price rises in May is proof of lingering pricing power. That implies new "temporary" bumps in inflation are likely ahead, e.g. when the next cost or demand pickup comes.

For the coming year, domestic survey-based leading indicators suggest that inflation could settle in the 1.5–3 percent range, but there are caveats. Firstly, a range of global indicators have turned around and show signs of a pickup in global inflation pressures, which would inevitably reach Swedish shores eventually. Secondly, the SEK has been in a weakening trend this year, driving up imports costs. Lastly – related to the "Taylor Swift"-effect above – price-setting indicators do not yet prove that firm "behaviour" has normalised, meaning that new cost shocks still propagate all the way to consumer prices on a greater scale than historically common.

We keep expecting a slow Riksbank cutting cycle ahead

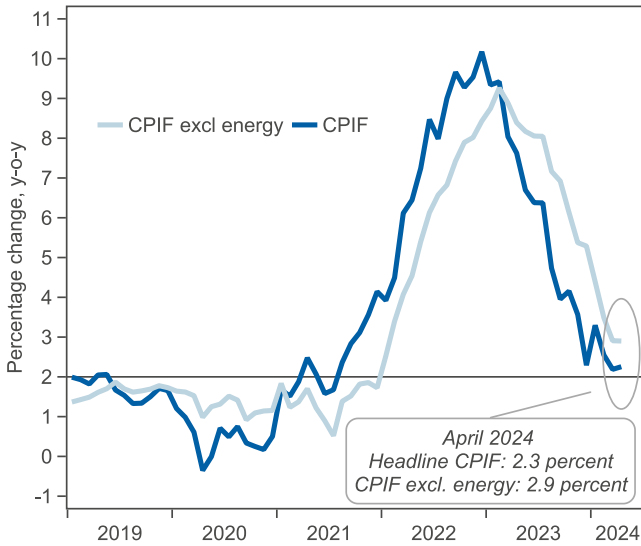
We stick to our long-held view of a careful approach to policy normalisation, and expect two additional cuts in 2024, in September and December, followed by an additional four cuts down to 2.25% by September 2025.

Admittedly, today's CPIF implies that, in terms of raw inflation outcomes, we are not far from the Riksbank's March alternative scenario with a faster rate cut cycle. But we judge that inflation outcomes alone will not trigger deployment of such alternative policy action. Instead the outlook must also change into showing clearly softer inflation, and we do not see that at present. On top of the pure inflation outlook arguments, we note that the global economy is improving, and in the interest-rate sensitive Swedish economy much of the impact of restrictive monetary policy lies behind us, meaning the pickup in the economy could be particularly swift here, even underpinning inflation. The Riksbank has already flagged a similar such upside risk.

On Wednesday, 22 May, we launch the spring edition of our Global Macro Forecast report, packed with new analysis.

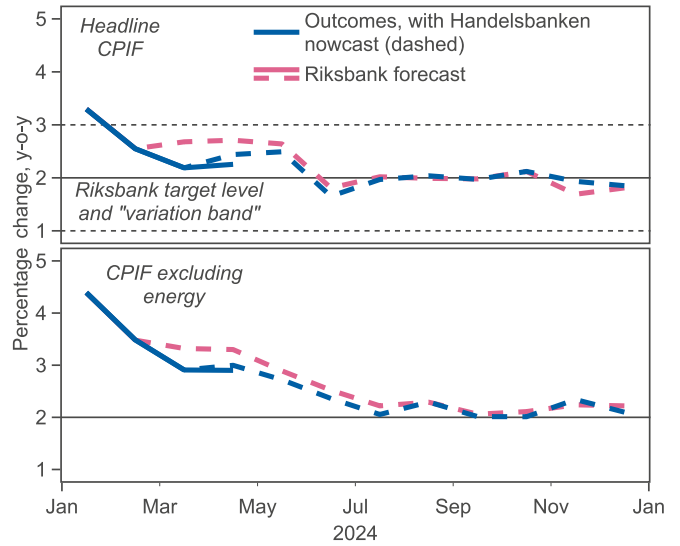
Please see the PDF version of this comment to access the research links appendix.

Inflation outcomes, and Handelsbanken forecast



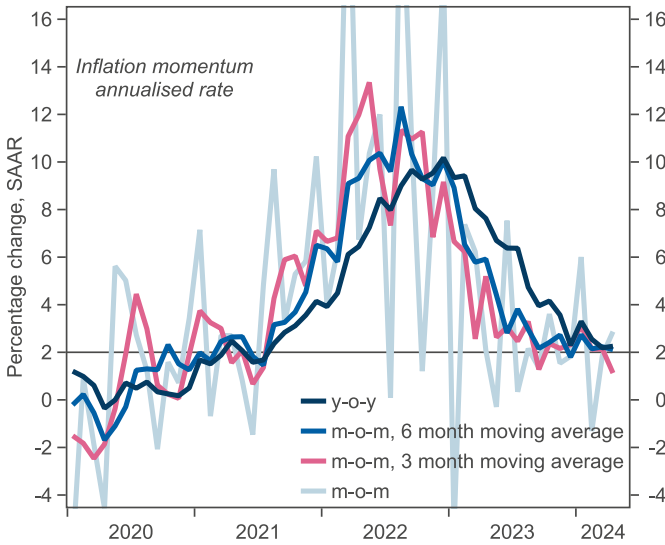
Sources: Macrobond, Statistics Sweden and Handelsbanken

Inflation forecasts: Riksbank vs. Handelsbanken



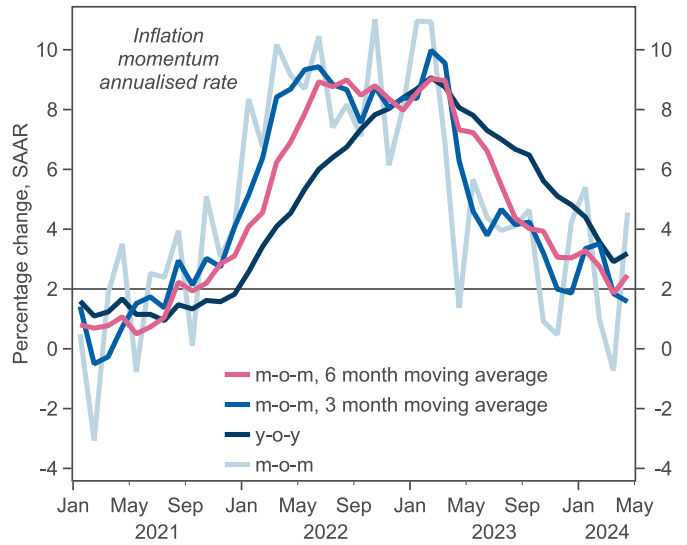
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Inflation momentum: CPI



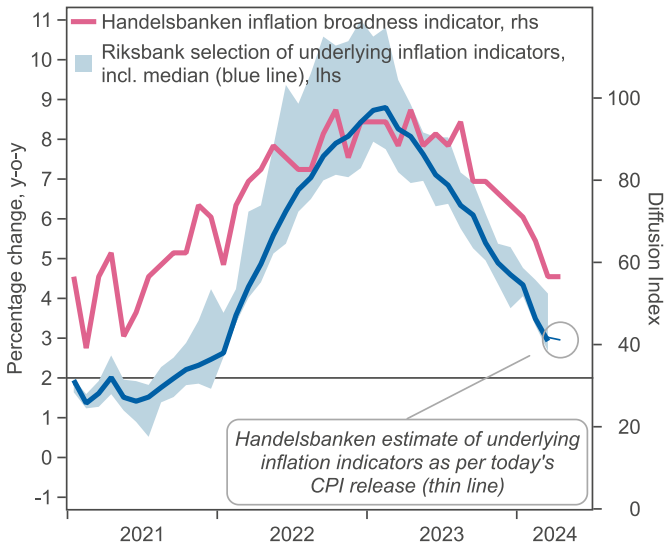
Sources: Macrobond, Statistics Sweden and Handelsbanken

Momentum: CPI excl. energy and international travel



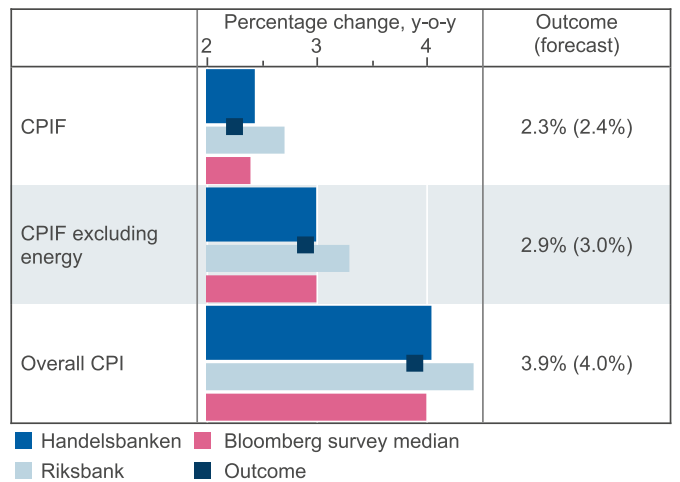
Sources: Macrobond, Statistics Sweden and Handelsbanken

Underlying inflation indicators



Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Today's CPI release: Key outcomes vs. forecasts



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Appendix: Handelsbanken research on inflation and monetary policy

The most recent
flagship reports and key
regular comments

Global Macro Forecast report;
--- ([Swedish](#) / [English with international focus](#))
The Ins and Outs of Swedish Real Estate;
--- ([Swedish](#) / [English summary](#))
"Inflation opens door to May Riksbank cut";
--- [March CPI report](#)
"The Riksbank cuts the policy rate and leads the way";
--- [May Riksbank policy decision](#)

Key in-depth analyses

Inflation

"Do not expect service price inflation to normalise and do not worry too much about it";
--- [Macro Comment](#), December 14, 2023
"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 and interest rates

"The Riksbank's asset purchases: Limited effect at high costs – Swedish National Audit Office";
--- [Fast Comment](#), December 6, 2023
"The krona's role in carry strategies";
--- FX Pilot, Nov 17, 2023 ([English](#) / [Swedish](#))
"Fed models support the case that the "bond vigilantes" are back";
--- [Macro Comment](#), October 6, 2023
"A currency hedged FX reserve is no FX reserve";
--- FX Pilot, October 5, 2023 ([English](#) / [Swedish](#))
"Neutral interest rates on the rise again"; and
"From QE to QT — Smooth transition or turbulent pivot?";
--- January 2023 ([p. 7 and p. 9, respectively, here](#))
"Time to pay the piper – The Riksbank's QE programme largesse is not a free government lunch";
--- [Macro Comment](#) predicting that the Riksbank would need a much bigger recapitalisation from the treasury than it initially signalled, October 26, 2022

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