

Fast Comment Sweden

Softer inflation than expected, but details remain worrisome; February CPI report

- CPIF inflation eased to 2.5 percent, but all that glitters is not gold
- Underlying inflation trend driven by services, while volatile items dampened February
- We stick to our forecast for a first Riksbank cut in June

CPIF inflation eased to 2.5 percent, but all that glitters is not gold

The February CPI report shows headline CPIF inflation easing more than forecast, to 2.5%, y-o-y, from January's 3.3% (which topped estimates, see more research in appendix below). The electricity price dropped more than we had anticipated, but the inflation decline was also driven by deceleration in CPIF excluding energy (CPIFXE). CPIFXE inflation – one indicator of underlying inflation – turned out at 3.5% y-o-y, also below our call. However, all that glitters is not gold, as the downside surprise was driven by 1) a surprise fall in volatile fruit and vegetables prices – website Matpriskollen had instead pointed to a food price *rise* in February, but only core foods printed an increase – and 2) weak goods price developments, perhaps an effect of krona strengthening in the recent past. In sharp contrast to this, core services prices increased twice as fast as we had forecast.

All told, inflation was low compared [with our forecast](#), but closer to the consensus expectations and the initial market impact on the krona was marginal.

Underlying inflation trend driven by services

Looking closer at the worrisome parts of inflation, we note that the recent monthly rate trend remains somewhat elevated (see below chart on CPIF excl. energy and international travel, a Riksbank favourite measure), even after today's slower 1-month pace. Seasonal adjustment is a tricky business, but reinforcing our point is a look at the raw CPIFXE data where we clearly find that January and February 2024 have featured more price rises than normal (and that is despite the unusually large negative "basket effect" blurring the January picture!). One important driver behind the lingering inflation pressure is core services (32% of the CPI basket), which now appears to be gathering new momentum – the monthly rate and the 3-month rate are higher than the 6-month and 12-month rates. This could be an effect of the tendency for the first four months of the year to be price-hiking season, but something more fundamental could also be at play.

We stick to our forecast for a first Riksbank cut in June

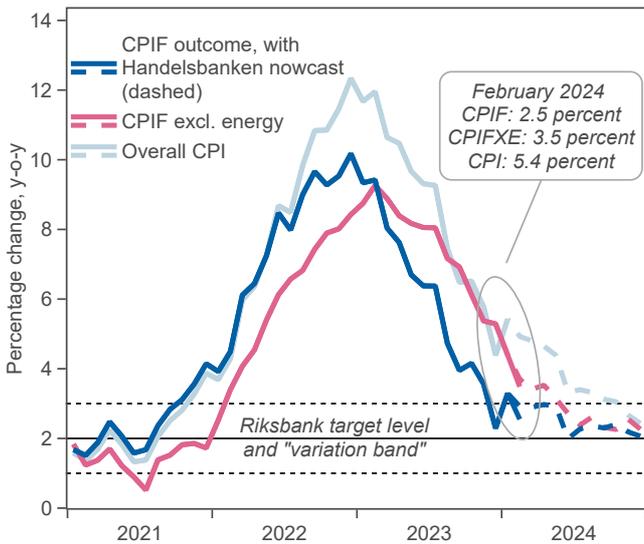
February inflation is, on the margin, good news and strengthens the case for the Riksbank to start dialing back its restrictive policy this year. However, with the underlying inflation trend still above normal and the tentative reacceleration in core services, worries remain for the Riksbank. There is no imminent threat to the overall Swedish economy, so there is no rush to cut the policy rate. In this situation, we do not see the Riksbank starting its cutting cycle before the major central banks.

All told, we stick to our forecast for the Riksbank to start cutting its policy rate in June, and adopt a careful and resilient monetary policy strategy for 2024, not cutting every six weeks (i.e. at all meetings) but "only" in September and December, allowing time to properly digest inflation outcomes and evaluate economic developments in between.

Please see full PDF version of this comment to access the full chart pack and a research links appendix.

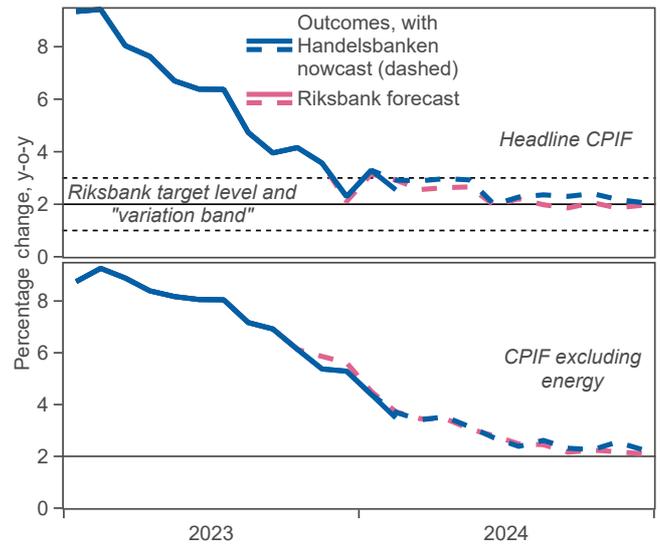
Johan Löf, +46 709 391 283, johan.lof@handelsbanken.se

Inflation outcomes, and Handelsbanken forecast



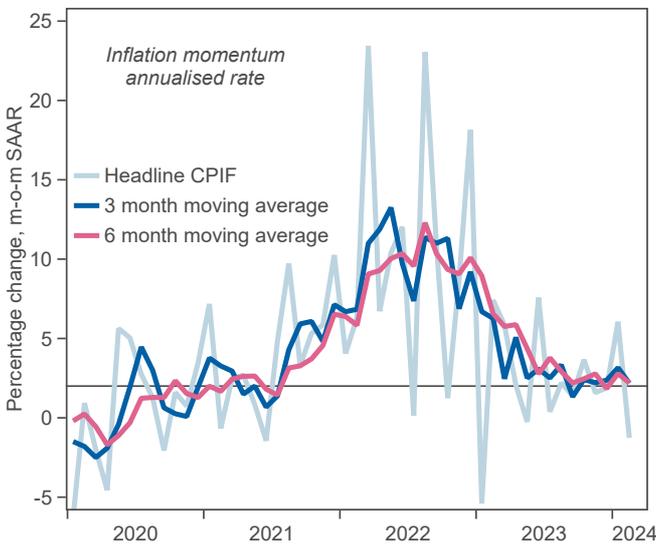
Sources: Macrobond, Statistics Sweden and Handelsbanken

Inflation forecasts: Riksbank vs. Handelsbanken



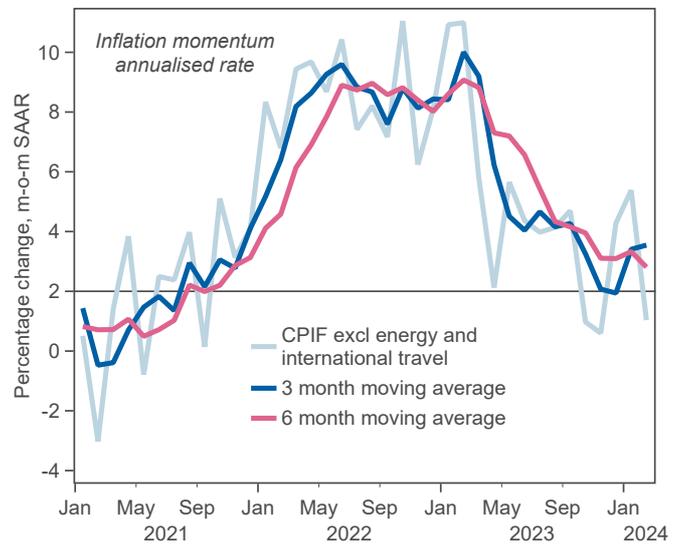
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Inflation momentum: CPIF



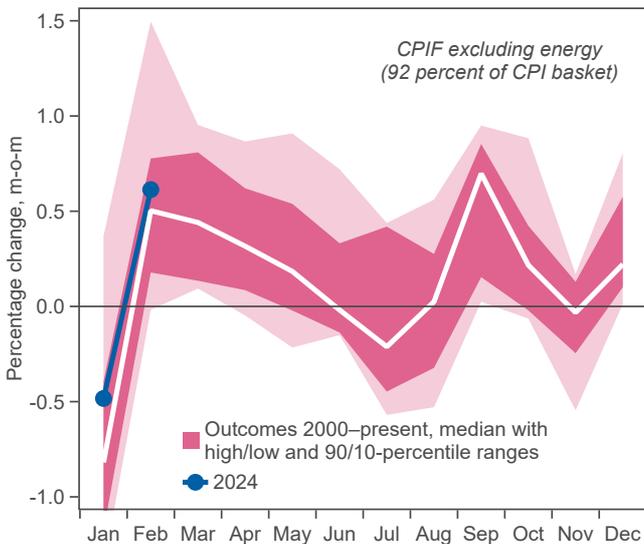
Sources: Macrobond, Statistics Sweden and Handelsbanken

Momentum: CPIF excl. energy and international travel



Sources: Macrobond, Statistics Sweden and Handelsbanken

CPIFXE outcome vs. seasonal pattern



Sources: Macrobond, Statistics Sweden and Handelsbanken

CPI February: Key aggregates

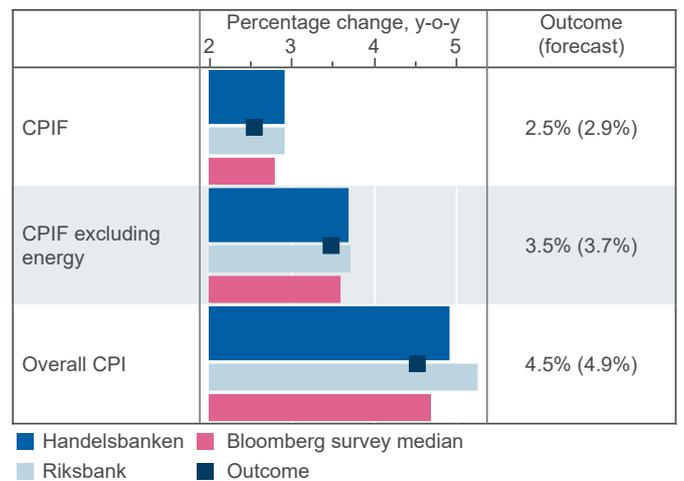
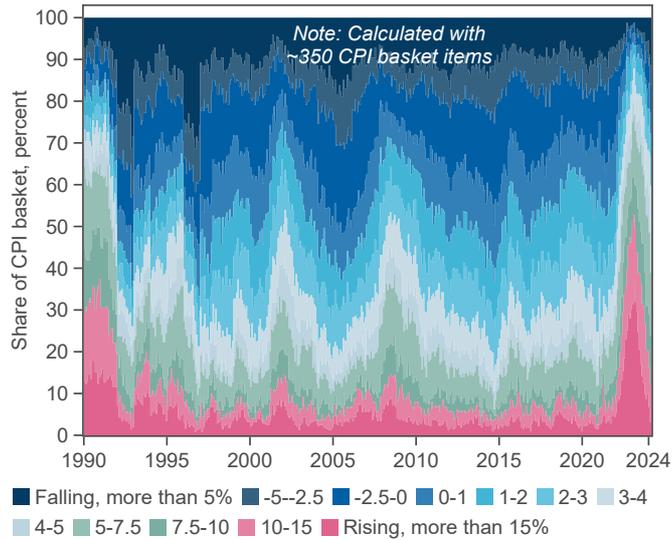


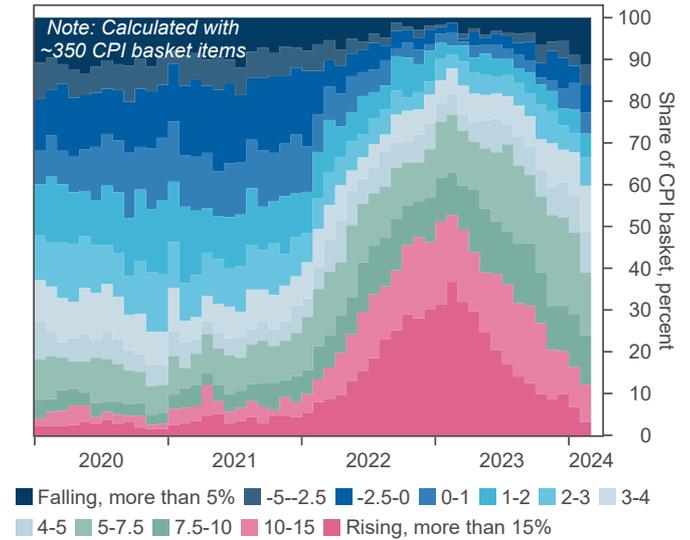
Chart pack: Additional CPI report inflation graphs

Distribution of price changes historically hot...

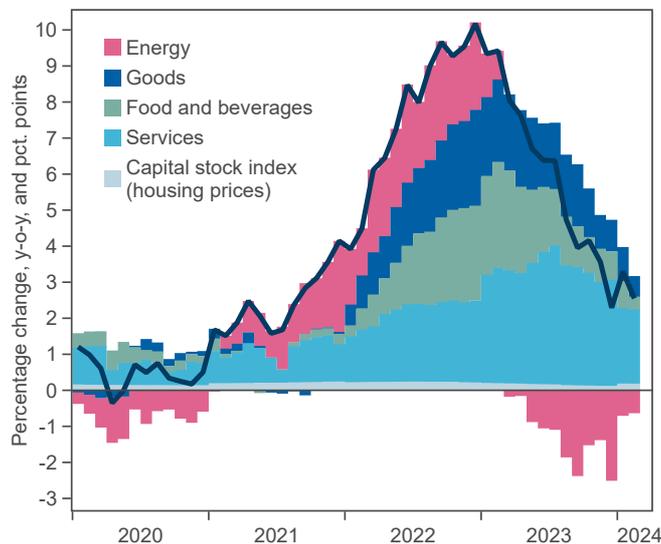


Sources: Macrobond, Statistics Sweden and Handelsbanken

...but share of prices rising 3% or more took step down

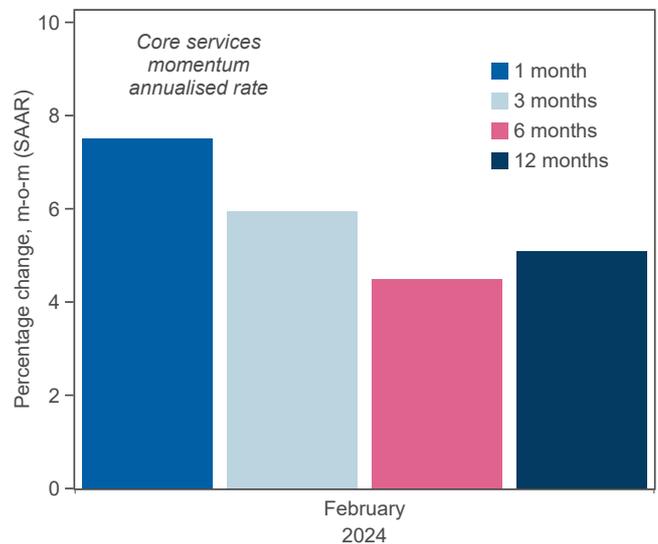


CPIIF: Services prices the main driver



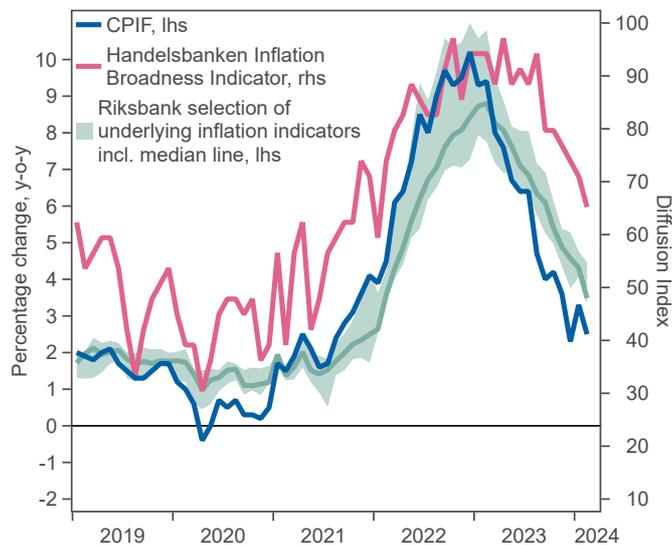
Sources: Macrobond, Statistics Sweden and Handelsbanken

Core services momentum picking up



Sources: Macrobond, Statistics Sweden and Handelsbanken

Underlying inflation still slowing in y-o-y terms



Sources: Macrobond, Eurostat, NFIB and Handelsbanken

February m-o-m: Volatile items dampen inflation

	Percentage change, m-o-m											Outcome
	-6	-5	-4	-3	-2	-1	0	1	2	3	4	
CPIIF												0.2%
CPI												0.2%
CPIIF excl Energy												0.6%
Interest rate costs												1.0%
Food and beverages												0.1%
Energy												-5.4%
Goods												0.4%
Services												0.9%

Legend: Current outcome (dark blue), Forecast (light blue), Same period last year (diamond)

Sources: Macrobond, Statistics Sweden and Handelsbanken

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](#))
"Not out of the woods yet";
--- [January CPI report](#)
"A large step toward rate cuts";
--- [February Riksbank monetary 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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