Fast Comment Sweden

No summer vacation for the Riksbank; June CPI report

- Inflation surpasses Riksbank forecast, with economy caught in nominal feedback loop
- Headline CPIF down to 6.4%, but sticky inflation fuelled by further service price rises
- Strengthens our forecast that Riksbank will deliver 25bp hikes in both September and November

Inflation surpasses Riksbank forecast; economy caught in nominal feedback loop

The June CPI report shows headline CPIF inflation easing only from 6.7% to 6.4% y-o-y, higher than the Riksbank's forecast as well as market expectations (both 6), but in line with our own forecast (6.3). This hardly offers a relaxing summer vacation for the Riksbank, which was already anxiously awaiting both a string of global central bank decisions in July-August and some extra difficult-to-digest wage data ahead of its policy announcement due on September 21.

CPIF excluding energy - one indicator of underlying inflation - decreased slightly, from 8.2% to 8.1% y-o-y, while its monthly change continues to show too strong momentum for the 2% inflation target to be reached. Our estimates of some other underlying inflation indicators are also still elevated.

The market impact was for a higher interest rate and a stronger SEK, but the latter quickly reversed.

Headline CPIF down to 6.4%, but sticky inflation fuelled by services

Electricity prices rose in June, compared to May, and the krona weakened. Overall, this resulted in energy price disinflation being much less accentuated than it was last month, hence not dragging down headline CPIF inflation as much (see contributions graph below). Food prices stayed more or less flat for a third straight month, but the real litmus test lies ahead, with July being a key price hiking month in regular years - we are sticking to the call that food price inflation is not completely over.

Lastly, we note that services prices posted another faster-than-normal rise, despite the eruption last month. All told, today's CPI print corroborates the sticky inflation view and supports our above-consensus forecast.

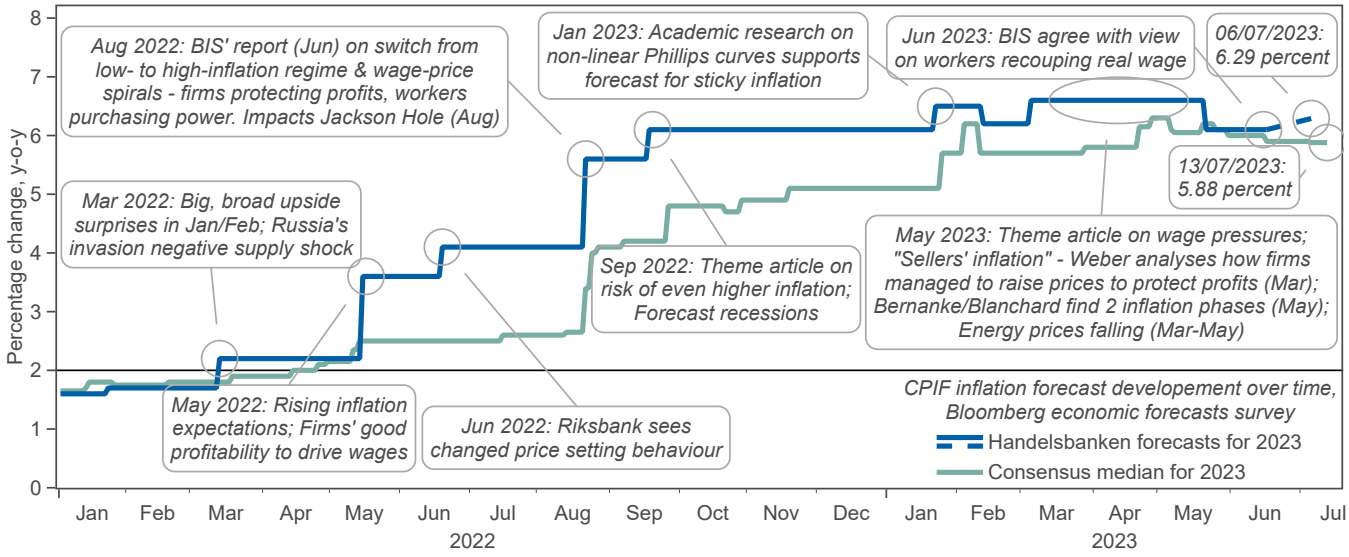
Strengthens our forecast that Riksbank will hike 25bp in both Sep and Nov

Our forecast is slightly above the Riksbank's too for the coming years, and we judge that significant further policy tightening will be needed. The economy appears to be caught in a nominal feedback loop with still-high profits, rising household incomes via higher employment and accelerating wages, which are fuelling a rising nominal spending trend and making further price rises possible, feeding back to the start of the loop: profits. A full-fledged wage-price spiral remains a way off, however; see here and here.

But a "wage-price persistence", which risks making inflation more sticky than even our forecast, is propelled by not only the nominal feedback loop, but could also find some further support in the "excess" pandemic era savings in the household sector. On the other hand, the "excess" profits in the business sector could potentially help firms to more easily absorb the rising wage trend, without driving selling price increases as large as in 2021-23.

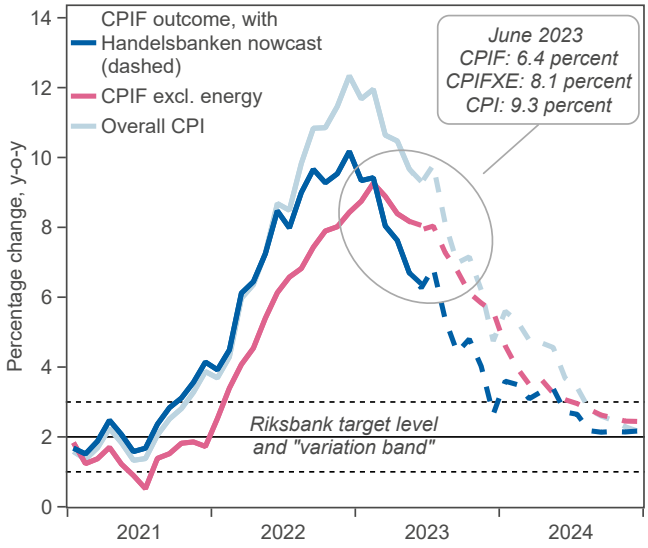
We stick to our forecast that the Riksbank will deliver 25bp hikes in both September and November. On the margin, today's CPI even strengthens our view.

The story behind our long-standing above-consensus inflation forecast



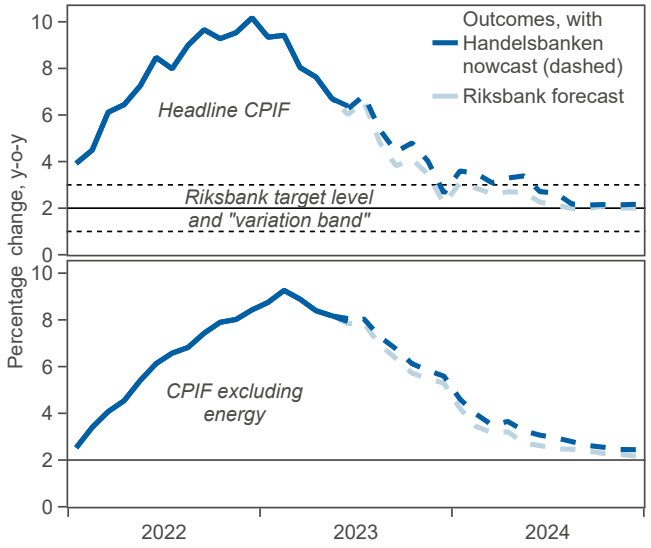
Sources: Macrobond, Bloomberg and Handelsbanken

Inflation vs Handelsbanken forecast



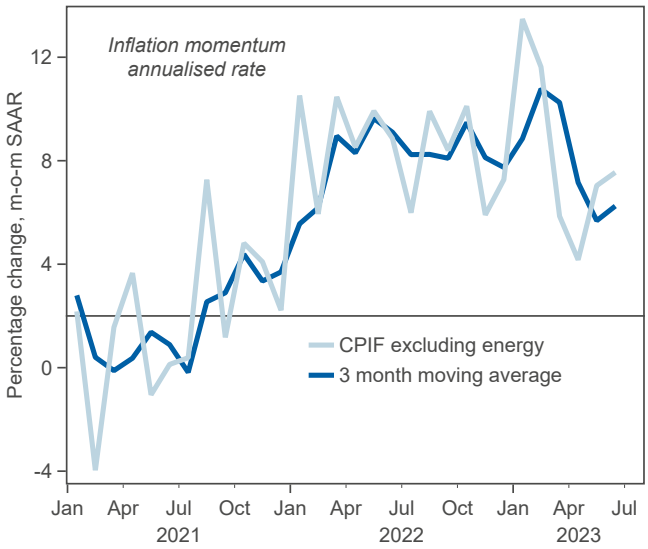
Sources: Macrobond, Statistics Sweden and Handelsbanken

Riksbank and Handelsbanken forecasts



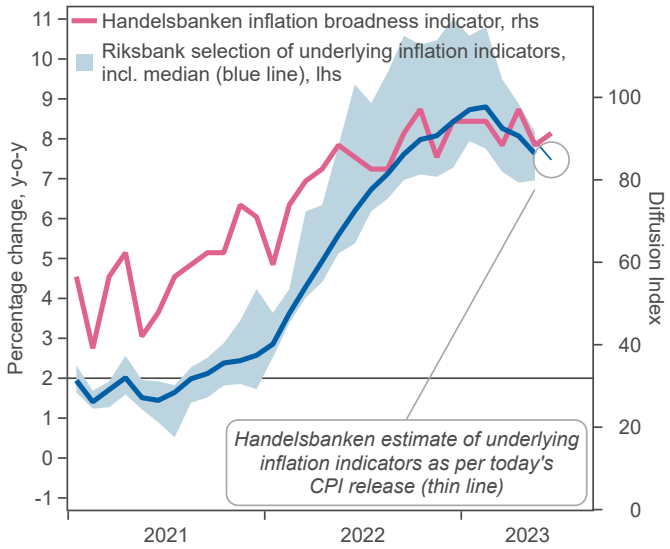
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Momentum: Underlying inflation CPIF excluding energy



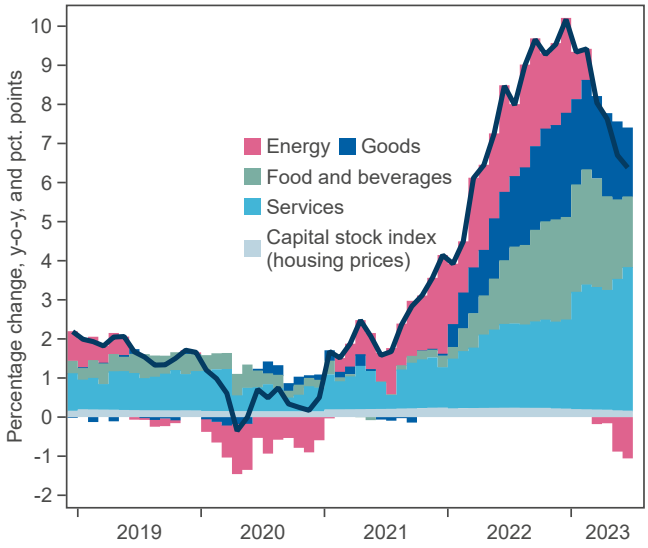
Sources: Macrobond, Statistics Sweden and Handelsbanken

Underlying inflation indicators



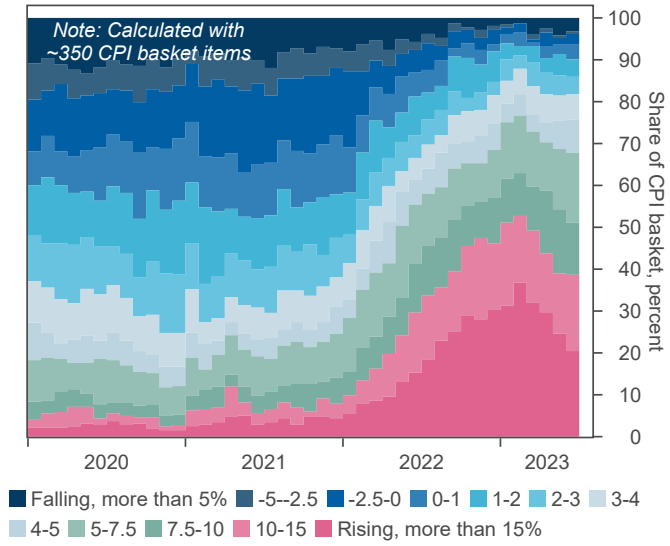
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Component contributions to headline CPIF



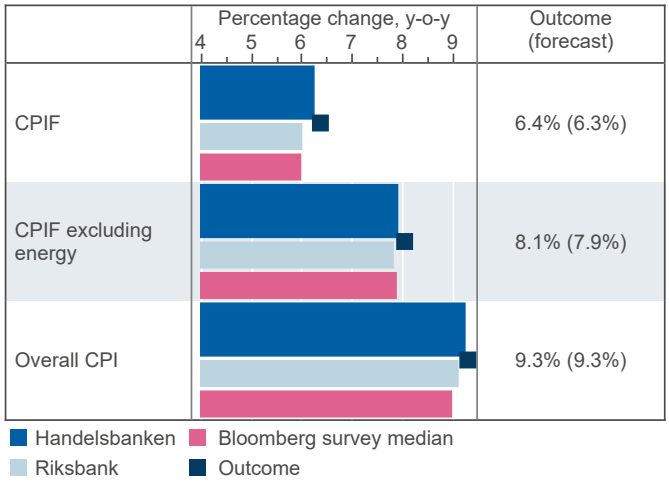
Sources: Statistics Sweden and Handelsbanken

Distribution of price changes in the CPI basket



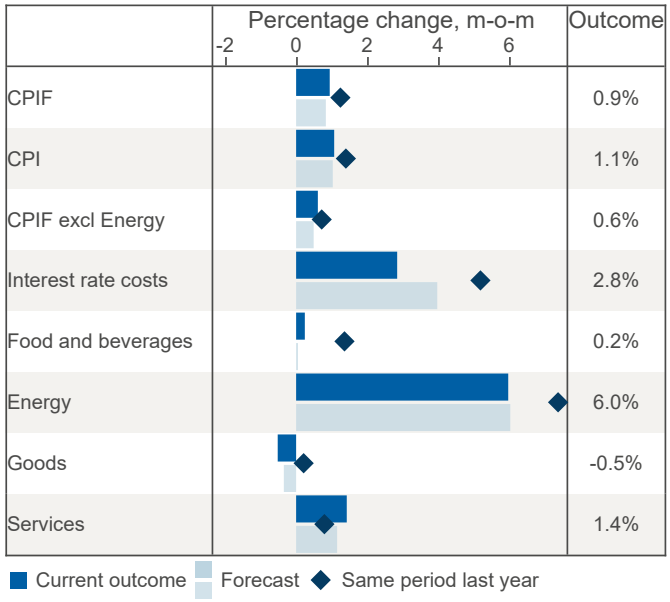
Sources: Macrobond, Statistics Sweden and Handelsbanken

CPI June: Key aggregates



Sources: Bloomberg, Macrobond, Riksbank, Statistics Sweden and Handelsbanken

CPI June: Aggregate components



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