

Fast Comment Sweden

From hope to despair? No, but risks linger; November CPI report

- Far above Riksbank's forecast again, as CPIF inflation reaccelerates to 9.5 percent
- Surge caused by forecasters' arch-enemy, electricity; inflation turning point remains in sight
- Too early to call another hawkish turn by the Riksbank; 25bp February hike still our base case

Far above Riksbank forecast again, as CPIF inflation reaccelerates

The November CPI report shows that headline CPIF inflation picked up again, to 9.5 percent, y-o-y, from 9.3 previously. The electricity price is the main factor behind the CPIF rollercoaster witnessed this autumn. Not only is it volatile, recently, it has also become harder to estimate the spot price's impact on the consumer price ([read more here](#)). Ahead of today's CPI report the range of economists' forecasts was not as wide as last month, however, and headline CPIF inflation was not only roughly in line with our forecast, but also the analyst median (Handelsbanken and consensus 9.6). The Riksbank, however, had forecast a much lower print of 8.8, because at the time of its November monetary policy report, the resurgence in the electricity price was not yet fully known.

Underlying inflation, as illustrated by CPIF excluding energy (CPIFXE), turned out marginally below the Riksbank's expectations, landing at 8.0 percent (Riksbank 8.1, Handelsbanken and consensus 8.2). On impact, no significant market reaction registered in the SEK.

Surge caused by electricity; inflation turning point remains in sight

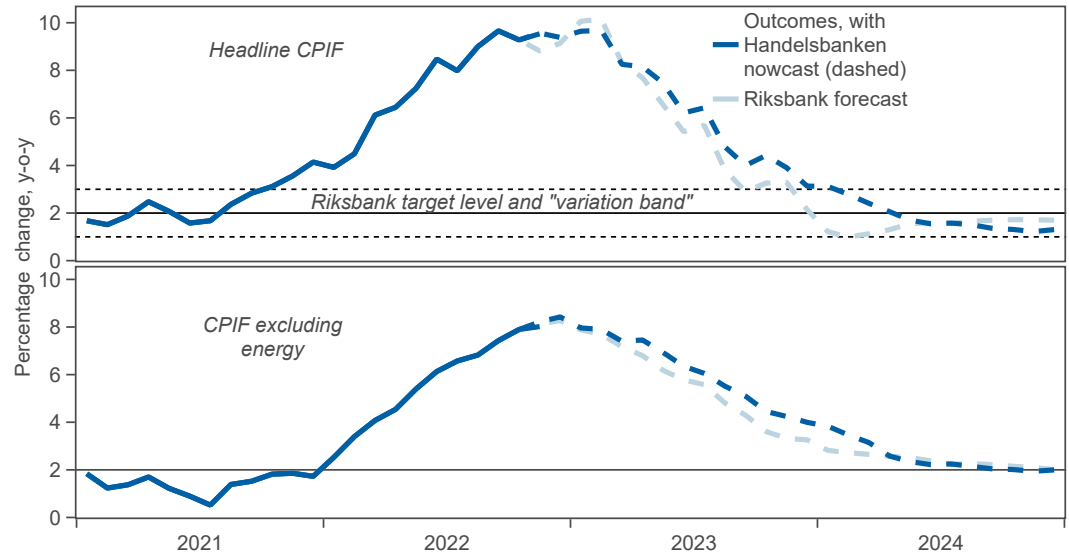
The somewhat cooler inflation picture painted by the slower-than-expected CPIFXE rise, is strengthened by the fact that 1) other underlying inflation indicators appear not to have risen further and 2) core services prices rose less than expected, i.e., it was not an unusually large Black Friday sale or some volatile category like fruit and vegetables that dampened CPIFXE.

We forecast slower inflation ahead, with a turning point likely within only a few months, but still expect 2023 CPIFXE to turn out higher than the Riksbank and consensus estimates. Remember that stubbornly high electricity prices can result in renewed indirect and second round effect on inflation. Faced with many humbling forecasting problems already, we are also about to again confront the yearly CPI basket re-weighting effect. But there may be reason to not ex ante overstate its impact on the inflation outlook ([read more here](#)).

Too early to call another hawkish turn by the Riksbank

The Riksbank laid out a high-inflation, hawkish policy response alternative scenario in the November monetary policy report. All told, we judge that more bad news than this CPIF print is required before the Riksbank draws the conclusion that we have ended up in that scenario. The Riksbank can take some comfort from today's underlying inflation showing, and yesterday's US CPI signal that global goods' price inflation may be cooling. We stick to our forecast for a 25bp hike in February, but upside risks remain.

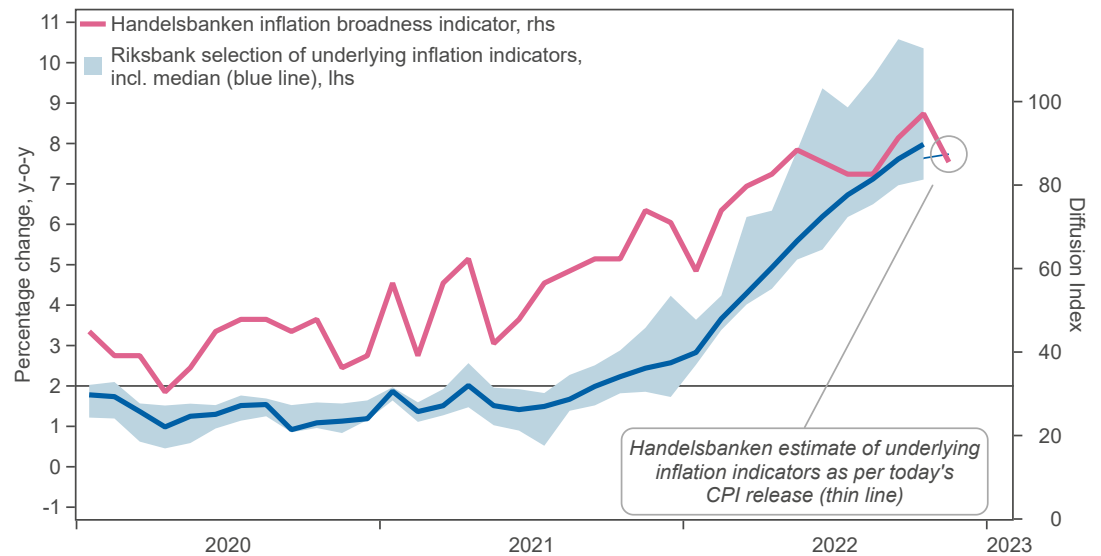
Inflation: Outcome vs. forecasts



CPIFXE below expectations, if anything, and...

Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

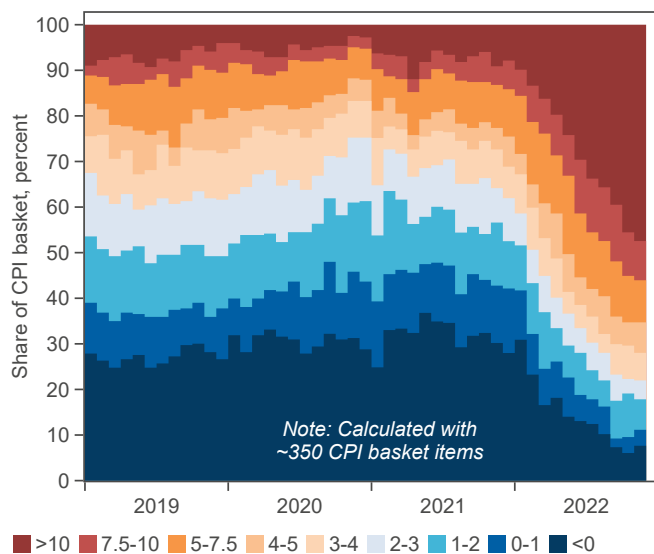
Underlying inflation indicators



...other underlying inflation gauges did not rise further, we estimate

Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

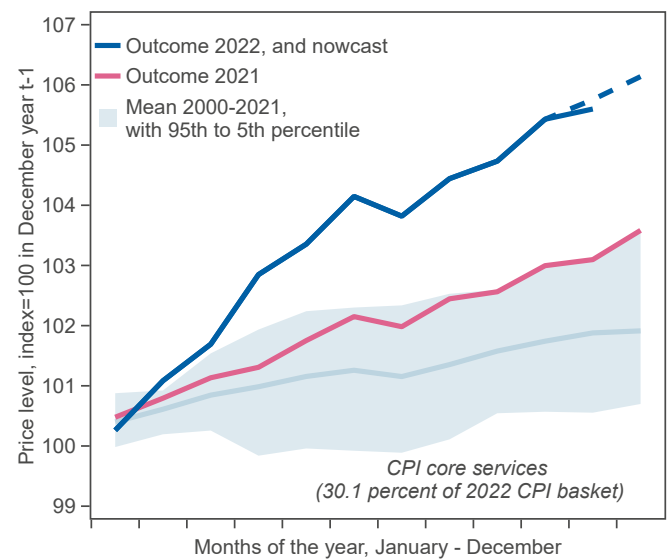
Price change distribution still very hot



Note: Calculated with ~350 CPI basket items

Sources: Macrobond, Statistics Sweden and Handelsbanken

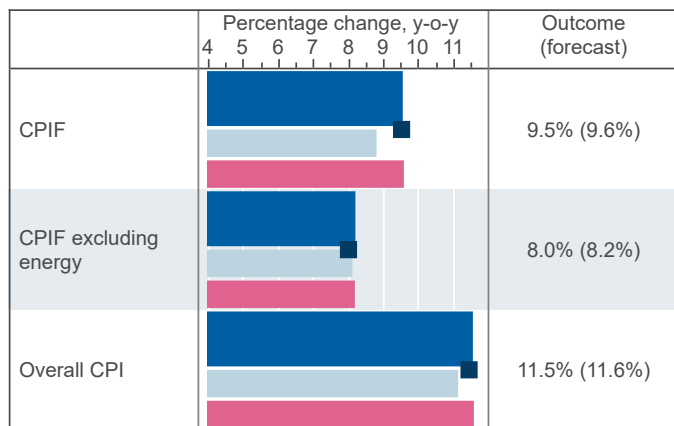
Core services rising less than forecast



CPI core services (30.1 percent of 2022 CPI basket)

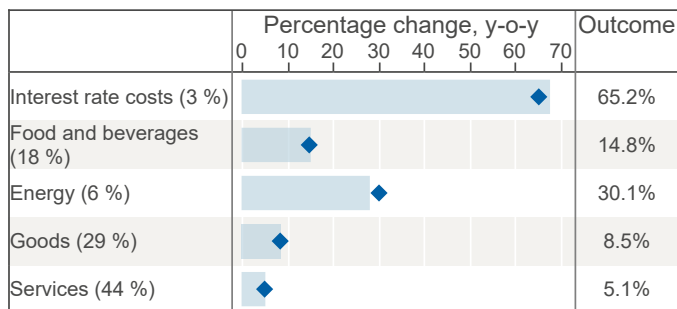
Sources: Macrobond, Statistics Sweden and Handelsbanken

CPI November key indicators



■ Handelsbanken
 ■ Bloomberg survey median
■ Riksbank
 ■ Outcome

CPI November aggregate categories



■ Forecast
 ◆ Outcome

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

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