Fast Comment Sweden

Temporary food price dip overstates underlying inflation relief; April CPI report

- Headline CPIF inflation eases to 7.6 percent, on the back of a marked decline in food prices
- Underlying inflation signal still strong; food price dip likely temporary noise
- Expect the Riksbank to raise by 25bp in June

Headline CPIF inflation eases; underlying inflation signal still strong

The April CPI report shows headline CPIF inflation easing from 8 percent to 7.6 percent y-o-y, lower than forecasts from the Riksbank and ourselves, as well as market expectations. CPIF excluding energy (CPIFXE) also took a step down from 8.9 percent to 8.4 percent y-o-y.

In line with anticipations, core food prices eased slightly compared to March (-0.3 percent y-o-y), thereby breaking an almost two-year-long rising trend. However, the volatile fruit and vegetables prices plummeted much more than expected, so overall food prices turned out well below forecast. This has a dampening effect on at least some of the underlying inflation indicators that we track to better forecast where inflation is headed next, e.g. the CPIFXE (see graphs below). However, we judge that this is mainly noise, not signal, as we forecast the food price decline to be temporary, with some renewed price rises most likely coming in the months ahead, as we explained in the preview for today's CPI print. A more interesting signal about inflation ahead was the slower-than-expected core services price rise.

Expect the Riksbank to raise by 25bp in June

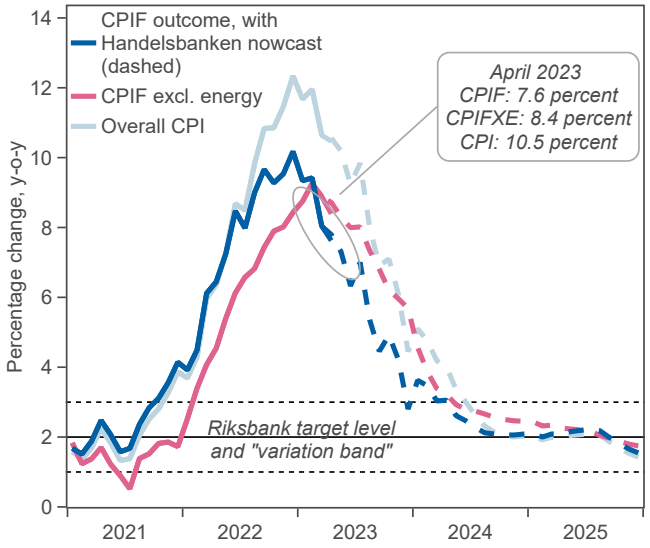
We stick to our view that the Riksbank will raise its policy rates by 25bp to 3.75 percent in June. Taken at face value, today's inflation does not appear to diverge from the Riksbank's expectations and convince it about raising its rate in June. But if we are right that the underlying inflation signal in the April CPI is actually still strong, then the Riksbank will not be deceived and instead continue to act to bring inflation back down to target, also keeping one eye on the ECB's rate hikes. In addition, note that while the Riksbank's April decision came across as dovish (e.g. "[...] policy rate will probably be raised further... in June or September"), last week's minutes tempered that dovish tone somewhat, as discussed in the above-mentioned CPI preview.

Want to know more?

We will fully update and further elaborate on our inflation view in the **new edition of our Global Macro Forecast, out May 24**. Mark your calendars! As usual you will find it, along with its more Sweden-focused sibling, at:
https://www.researchonline.se/macro/start

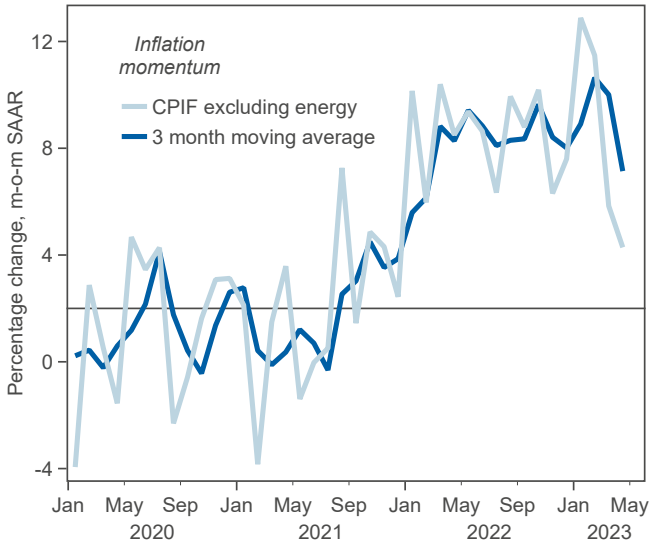
Meanwhile, do not miss these recent analyses on inflation and the Riksbank:
1.-- *Relief on the inflation front*; comment on the April NIER sentiment surveys found here.
2.-- *The phase of frontloaded tightening is over*; comment on the dovish Riksbank April monetary policy decision found here.

Inflation outcomes and forecasts



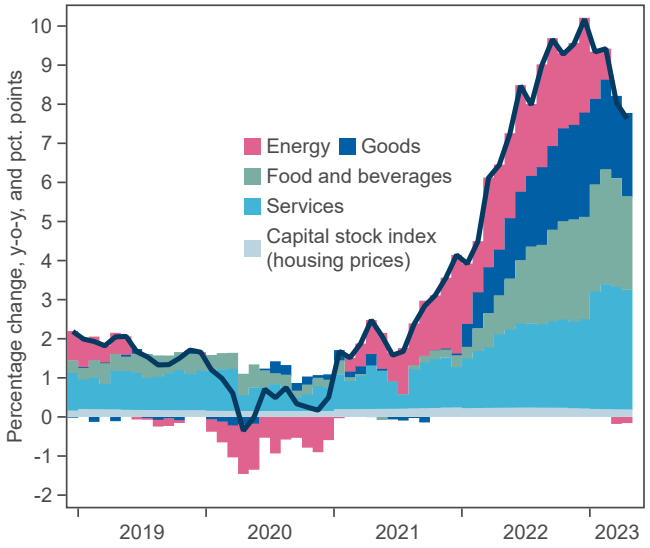
Sources: Macrobond, Statistics Sweden and Handelsbanken

Momentum: Underlying inflation CPIF excluding energy



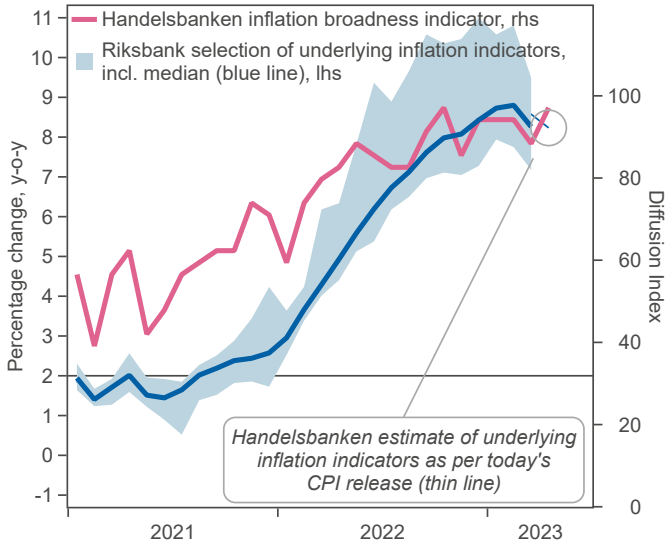
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Component contributions to headline CPIF



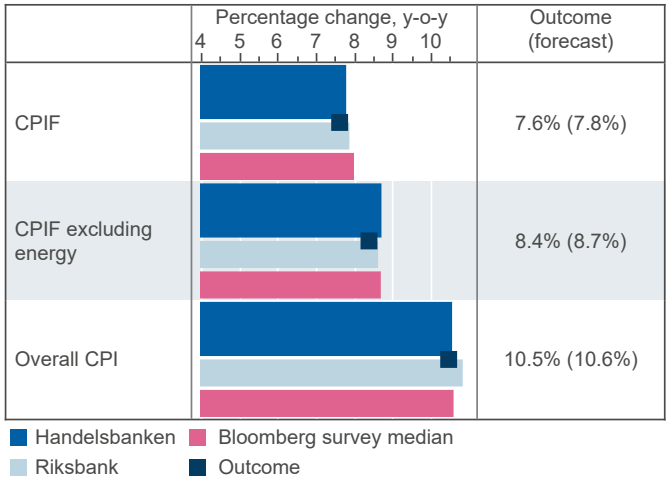
Sources: Statistics Sweden and Handelsbanken

Underlying inflation indicators peaking?

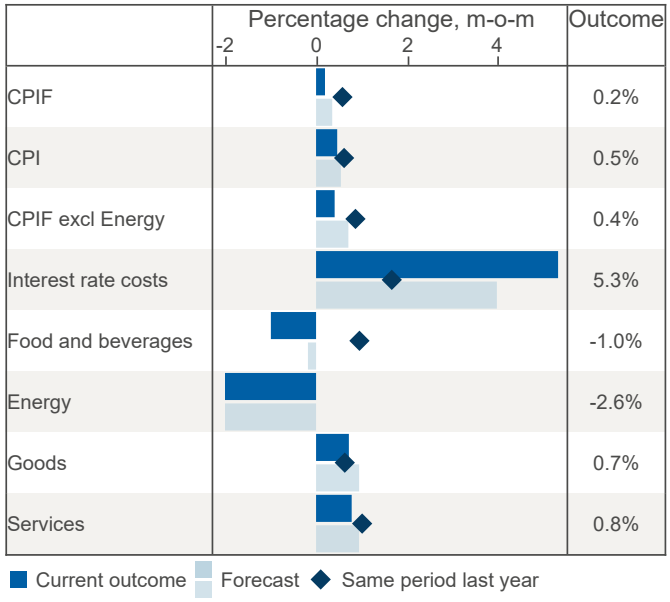


Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

CPI April: Key inflation measures



CPI April: Aggregate components



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