

Fast Comment Norway

Core inflation well above expectations, adding to the pressure on Norges Bank

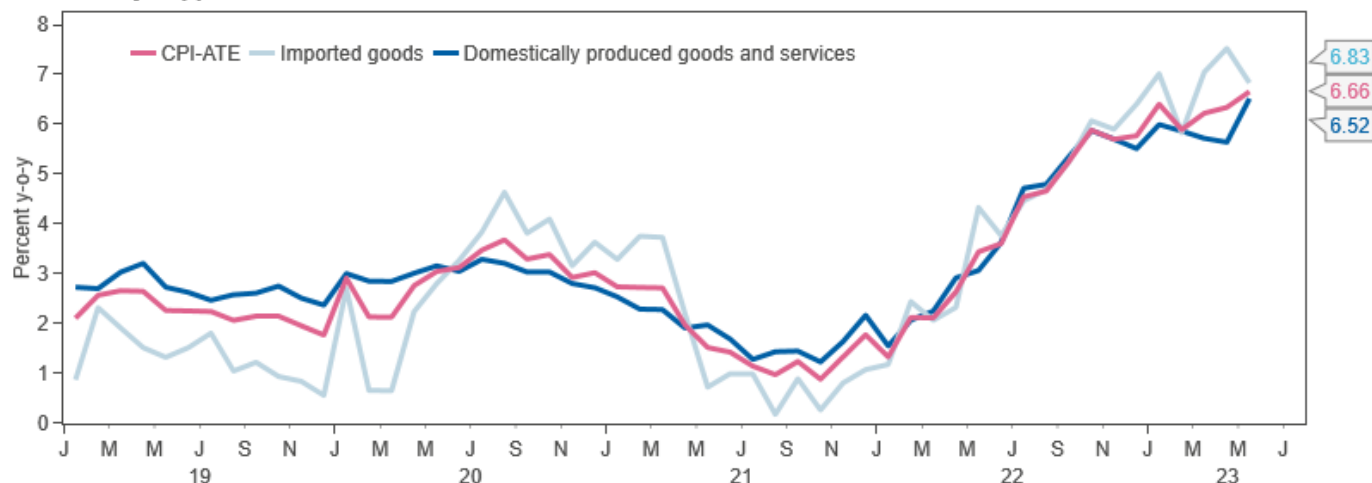
- CPI-ATE further up 6.7 percent in May, well above expectations
- We and consensus expected 6.3 percent, while Norges Bank had forecast 6.0 percent
- Expectations for the key policy rate pushed further up to 4.0 percent

CPI-ATE well above expectations, adding to the pressure on Norges Bank

Core inflation, as measured by the CPI-ATE, rose sharply to 6.7 percent in May, up from 6.3 percent in April. The outcome was well above expectations; we and consensus had expected 6.3 percent, whereas Norges Bank had anticipated 6.0 percent. In short: Norges Bank is subject to considerable pressure, and it is even more likely now that the key policy rate will be hiked further to 4.0 percent.

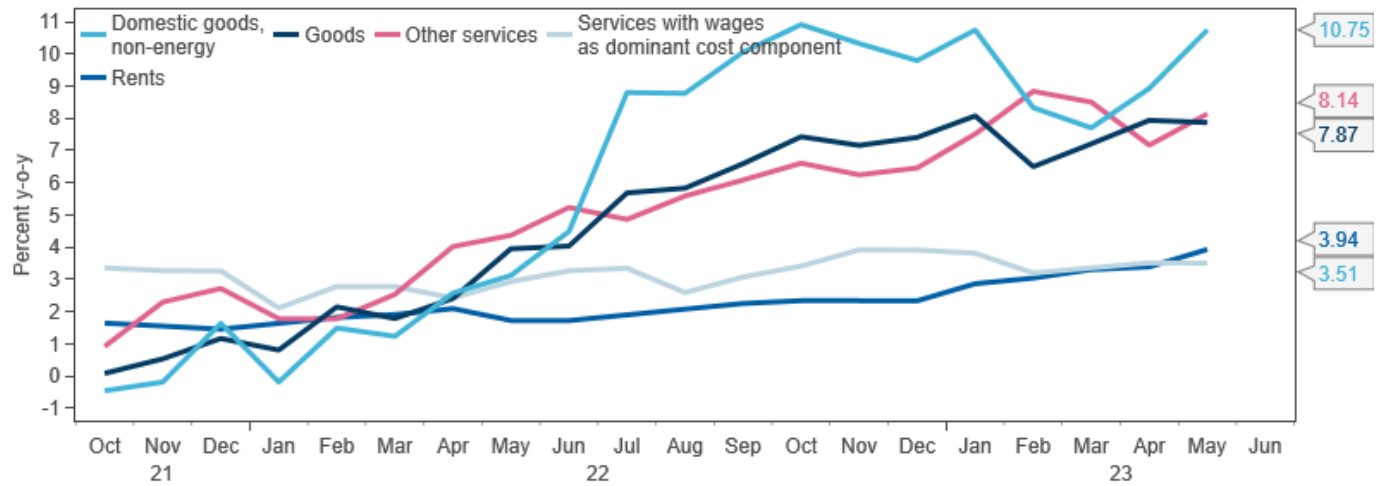
The further increase in the CPI-ATE was explained by prices for food and transport (air fares), which in isolation added almost 0.5pp to the change in the y-o-y rate from April to May. Other details were a bit mixed, however, but the key impression is that underlying price pressure is considerably stronger than assumed by Norges Bank. Regarding food prices, recall that back in February (a key month for price adjustments), actual price hikes were surprisingly 'subdued.' Instead, the same food prices have risen sharply in the subsequent months. Food prices are currently 13.2 percent higher than a year ago, and we have not seen such figures for food products since the early 1980s. Turning to prices for air fares, the data is perhaps more noisy, given all the holidays and long weekends in May. In particular, prices for domestic flights rose sharply in May. Statistics Norway highlights that this price component tends to fluctuate, which also implies we could see a downward correction in the following month. Still, the key conclusion is that Norges Bank has yet again underestimated the CPI-ATE by a wide margin. Markets' rate expectations have continued to rise, and the market is now fully expecting the policy rate to peak at 4.00 percent in September. This implies a sequence of hikes in June, August and September, or even the possibility that Norges Bank will have to reintroduce a double rate hike in June.

CPI-ATE, by supplier sector



Sources: Macrobond and Handelsbanken

CPI-ATE, by goods and services



Source: Macrobond

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