

Fast Comment Sweden

Not out of the woods yet; January CPI report

- Headline CPIF jumped to 3.3% after last month's temporary low
- Inflation excluding energy at 4.4%; In line with our long held view of momentum pickup
- No confidence boost for Riksbank target achievement; Expect cautious policy, first cut in June

Headline CPIF jumped after last month's temporary low

The January CPI report shows headline CPIF inflation jumping to 3.3%, y-o-y, from the temporary low in December (2.3%, see more via research links in appendix below). This means that the recent downside surprises in inflation, which both households and the Riksbank have welcomed, are now in the rearview mirror. Inflation is back at the trajectory forecast by the Riksbank three months ago, and more in line with our above-consensus forecast.

The January CPI January basket re-weighting effect on inflation was -0.25pp, fully in line with our assumption for a slightly more negative effect than average (graph below). On closer inspection, we find that the re-weighting effect masks higher inflation pressure than the first impressions of today's data. Turning to CPIF, the effect deviated more from historic average, printing at -0.35pp driven by an excl. energy effect of -0.48pp. This means the negative CPIF m-o-m rate (-0.3pp) was only a result of the basket effect, while aggregated *price changes* were slightly positive (see also [Statistics Sweden's memo](#)). This is unusual, as the seasonal pattern (excl. re-weighting effect) is for significantly negative CPIF and CPIFXE m-o-m rates. We conclude that the signal from companies' higher-than-normal pricing plans was confirmed in the January CPI report.

In line with our long held view of underlying inflation momentum pickup

CPIF excluding energy (CPIFXE) inflation – one indicator of underlying inflation – came in at an elevated 4.4% y-o-y. Admittedly, that is a significant step down from December's 5.3%, but the good news stops there. While the price rises in January CPI pale in comparison with the extremes in January 2023, they are still much too high to achieve the Riksbank's 2-percent target. The elevated momentum in headline as well as underlying inflation is underscored by the monthly pace in CPIF excluding energy and international travel – a Riksbank favourite, which is a little less shaky than CPIFXE when seasonally adjusted – printing at 5.4% in annualised terms (see graph below).

No confidence boost for the Riksbank; Expect cautious policy, first cut in June

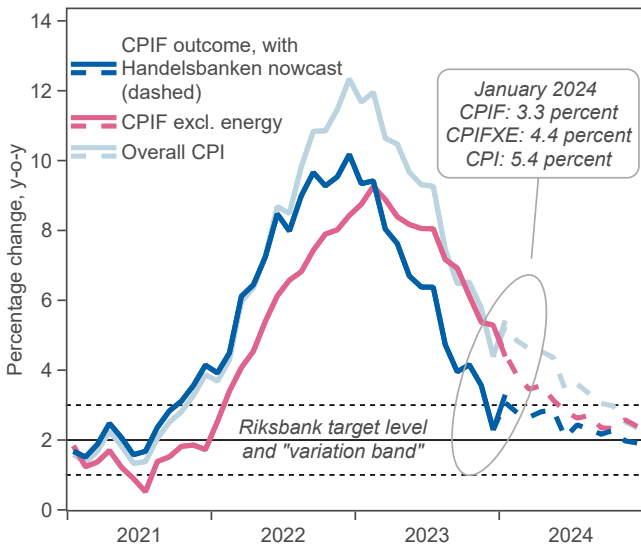
We stick to our forecast for the Riksbank to start cutting its policy rate in June, and adopt a careful and resilient monetary policy strategy for 2024, not cutting every six weeks (i.e. at all meetings) but "only" in September and December, allowing time to properly digest inflation outcomes and evaluate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

Today's CPI report indicates that inflation is neither close to, nor credibly on track towards, the 2-percent target. That means several more CPI reports will be needed before the Riksbank can hope for a sufficiently large confidence boost. Note also that the [picture painted labour market indicators](#) says an alternative scenario where a sharp rise in unemployment (rather than disinflation) triggers the Riksbank to cut more forcefully is unlikely at present.

Please see full PDF version of this comment to access the research links appendix.

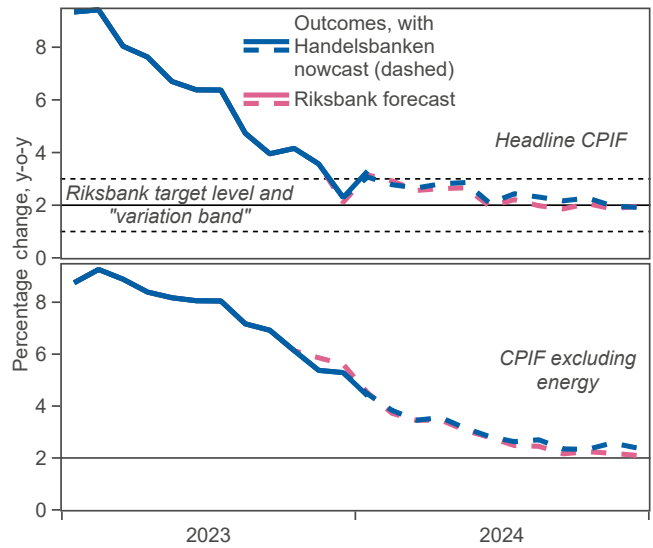
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Inflation outcomes, and Handelsbanken forecast



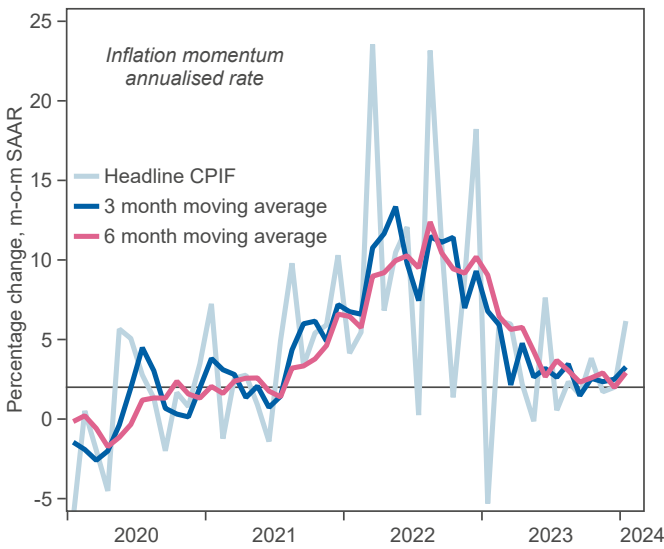
Sources: Macrobond, Statistics Sweden and Handelsbanken

Inflation forecasts: Riksbank vs. Handelsbanken



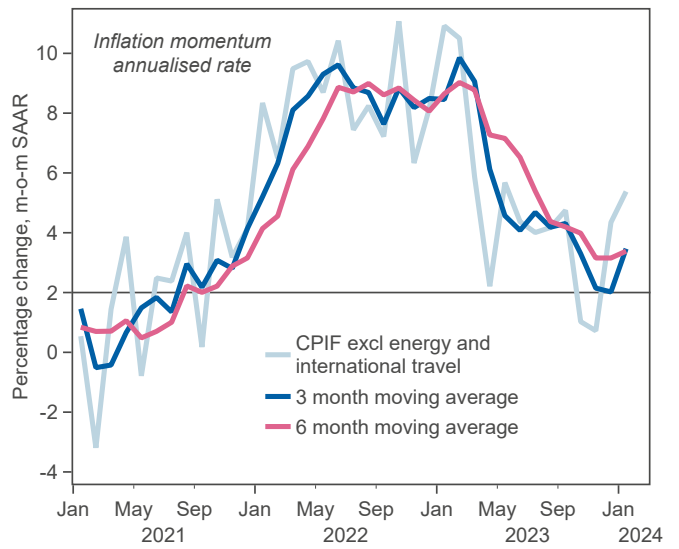
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Inflation momentum: CPIF



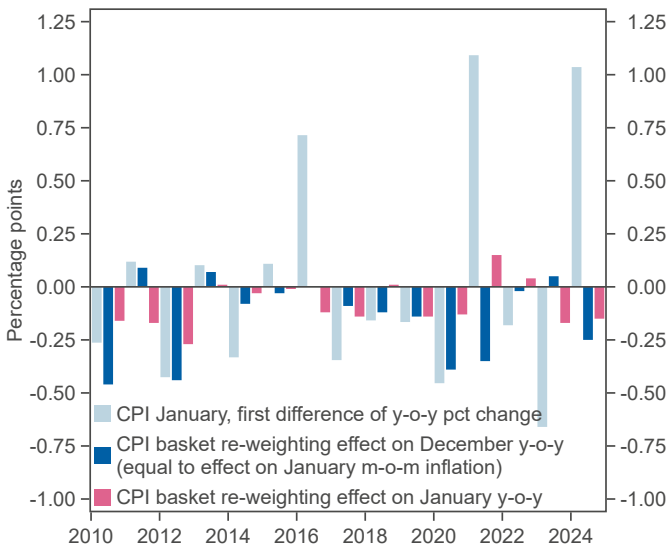
Sources: Macrobond, Statistics Sweden and Handelsbanken

Momentum: CPIF excl. energy and international travel



Sources: Macrobond, Statistics Sweden and Handelsbanken

January CPI basket re-weighting effect on inflation



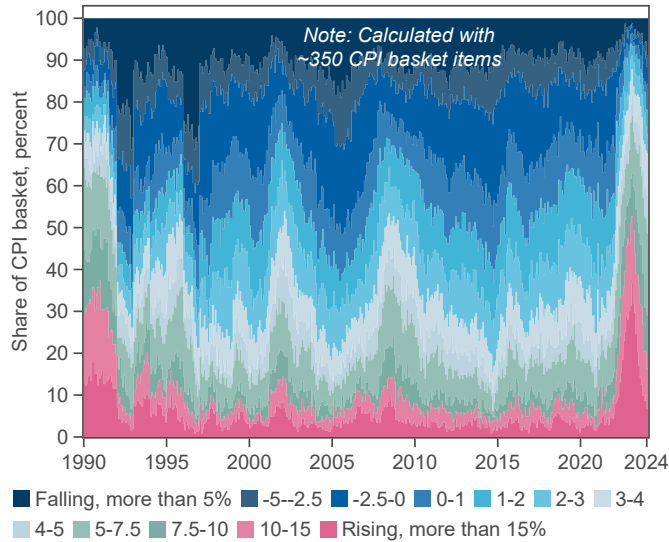
Sources: Statistics Sweden and Handelsbanken

CPI January: Key aggregates

	Percentage change, y-o-y				Outcome (forecast)
	2	3	4	5	
CPIF	[Bar chart showing Handelsbanken, Bloomberg survey median, Riksbank, and Outcome for CPIF]				3.3% (3.1%)
CPIF excluding energy	[Bar chart showing Handelsbanken, Bloomberg survey median, Riksbank, and Outcome for CPIF excluding energy]				4.4% (4.5%)
Overall CPI	[Bar chart showing Handelsbanken, Bloomberg survey median, Riksbank, and Outcome for Overall CPI]				5.4% (5.2%)

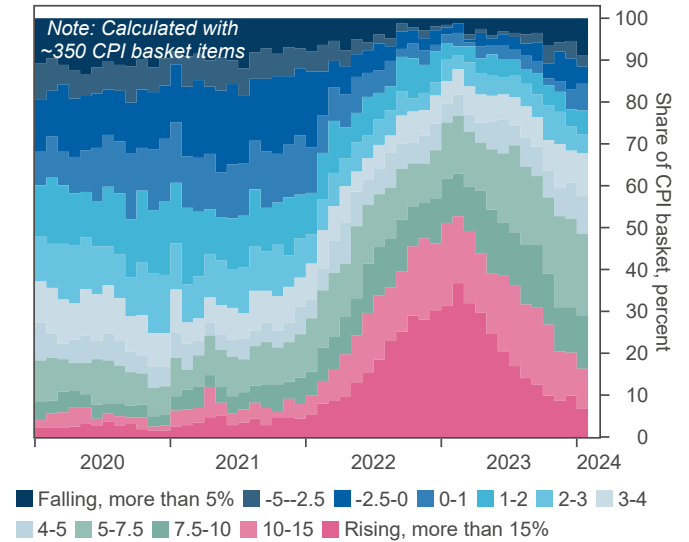
Chart pack: Additional CPI report inflation graphs

Distribution of price changes historically hot...

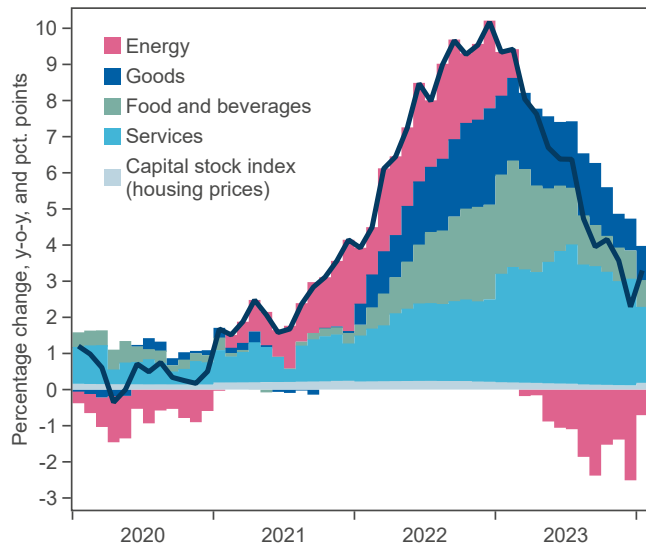


Sources: Macrobond, Statistics Sweden and Handelsbanken

...with prices on ~70% of basket rising 3% or more

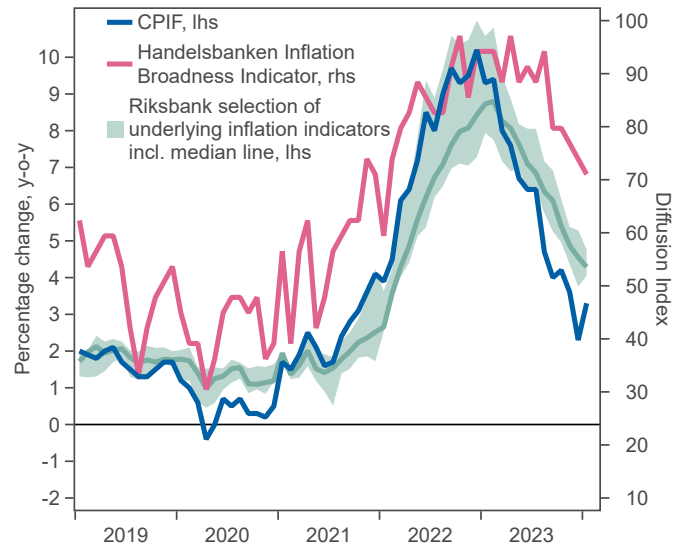


CPIF: Energy contribution rebounds after Dec base effect



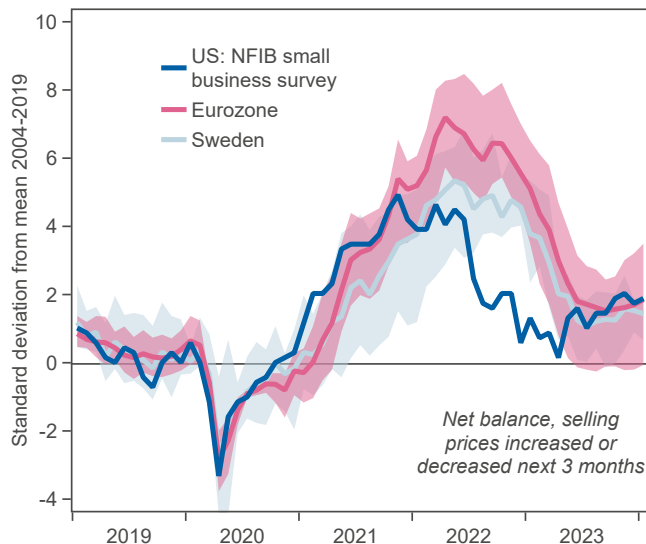
Sources: Macrobond, Statistics Sweden and Handelsbanken

Underlying inflation slowing only gradually



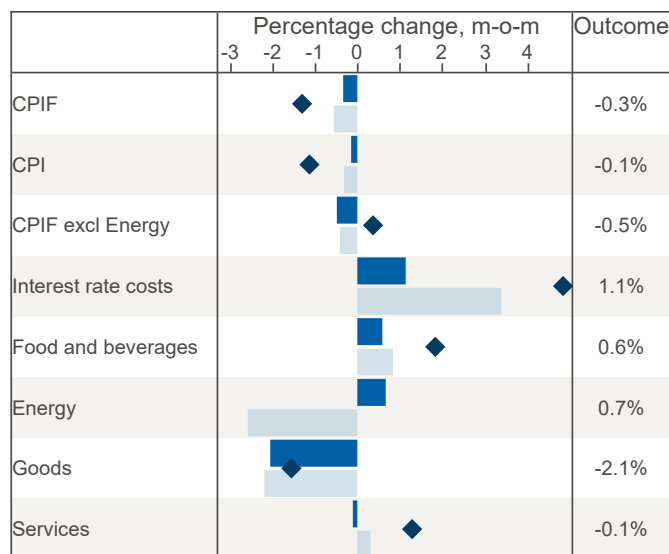
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

High inflation confirms signal from higher-than normal pricing plans



Sources: Macrobond, Eurostat, NFIB and Handelsbanken

January m-o-m: Re-weighting effect lift energy, despite monthly price drop



■ Current outcome ■ Forecast ◆ Same period last year

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](#))
 - "Inflation hitting target, but not stabilising there"; --- [December 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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