

Fast Comment Sweden

Inflation 2023 revised up to 7.5, Riksbank hikes to 4.25; February CPI preview

- Riksbank inflation forecast obsolete; we revise up 2023 CPIFXE inflation by 1.3pp to 7.5%
- Headline CPIF inflation not at target "within a reasonable time", still around 4% in Q1 2024
- Some disinflation expected ahead, but too early to declare victory over inflation
- Forecast change: Riksbank to raise policy rate by 75bp in April, and 50bp in June

Riksbank inflation forecast obsolete

After the surprisingly [high underlying inflation in January](#), and similar developments around the world, **we have revised up our inflation outlook markedly**. For 2023, we now expect CPIF excluding energy (CPIFXE), one indicator on underlying inflation, to average 7.5 percent, compared with the 6.2 percent we forecast in our nowcast one month ago and in our January Global Macro Forecast report (English [here](#), longer Swedish version [here](#)). Headline CPIF inflation has not been revised up as much, due to lower-than-anticipated electricity price outcomes and decreasing energy futures prices. But the 6.7 percent average we forecast for 2023 (up from 6.3 in last month's nowcast) still implies that CPIF inflation will be around 4 percent in early 2024.

Our conclusion is that the Riksbank's February inflation forecast is obsolete, and the Riksbank is far from achieving its 2 percent target "within a reasonable time", as it has been planning (see graph below).

Turning to the February CPI report (due Wednesday March 15), we expect headline CPIF to ease slightly to 9.1 percent, y-o-y, and CPIFXE to ease to 8.6 percent, y-o-y. The heightened volatility in the consumer electricity price versus the market spot price is one uncertainty. For CPIFXE, one uncertainty is how fast the new higher central agreements on rents will materialise in actual rents - it is likely that some of the historically large rises will affect already in February, but some will not show until Q2, i.e. April. But the current trend in CPIFXE suggests that there are many other, more intangible risks to inflation.

Some disinflation expected ahead, but too early to declare victory

Inflation has turned out to be more persistent than previously forecast. Looking at the monthly change in CPIFXE, one could not reject the notion that high inflation has become entrenched - one of the central banking community's biggest worries during 2022. Expressed as the annualised monthly change, CPIFXE has plateaued at around 8-9 percent since a year back, and with January 2023 showing a new high, if anything, it is hard to say that the Riksbank has made much progress in its fight against inflation.

Leading indicators remain too high to offer hope of a quick disinflation, and several important indicators have even picked up lately, not least the PPI where momentum reaccelerated. Overall, however, we still forecast CPIFXE to cool somewhat over the course of 2023, from 8.7 in January to just below 6 percent in December.

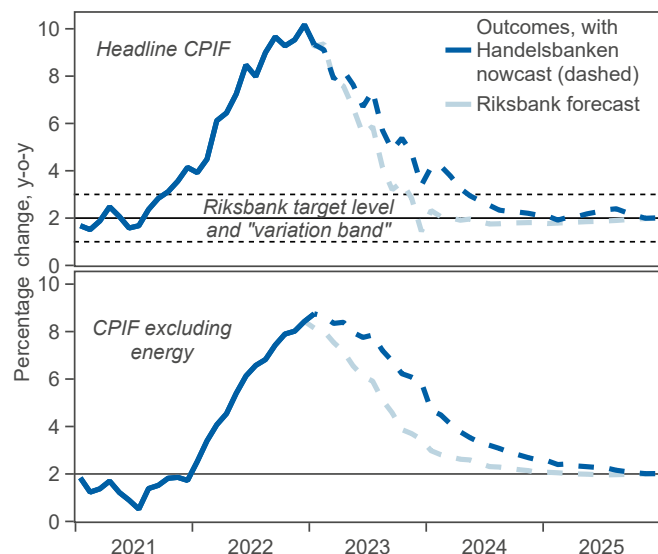
Forecast change: Riksbank to raise policy rate by 75bp in April, 50bp in June

If **indirect effects of high inflation linger and second-round effects** increase, January 2024 will be a repeat of the CPIFXE inflation bursts we have witnessed in 2022 and 2023. To counteract that, build on the partial disinflation expected for 2023 and thereby stay on a path toward the 2 percent target, we expect the Riksbank to tighten policy further. We judge that the severe upside surprise to current inflation will convince the governor, Erik Thedéen, and the Executive Board to raise by 75bp in April. While the Riksbank's guidance has been for "25 or 50bp" in April, it has also stated that **policy will be data dependent**, and right now data outcomes have made its inflation forecast obsolete and resulted in a more pressing need to show results in terms of disinflation. For June, we forecast another 50bp policy rate rise, taking the Riksbank's policy rate to 4.25 percent. Our [previous Riksbank call](#) was a final 50bp hike in April.

We judge that the more persistent inflation pressure will require this additional tightening. The **balance of risks around this new hawkish Riksbank forecast is balanced, in our view**. If inflation surprises to one side or the other, the data-dependent Riksbank will react again. And similarly to e.g. deputy governor Flodén, we see the cooling-off of the real economy as mild and

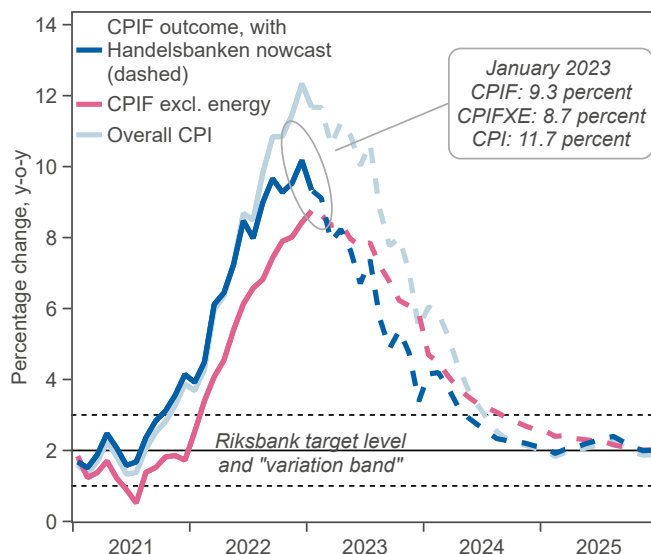
not giving rise to severe policy trade-offs at present - but if it was to become more marked, it could affect the Riksbank. Around the world, we see similar setbacks in the efforts to curb inflation, and today we are also revising up our forecasts for the ECB's and the Federal Reserve's policy rates, following last week's upgrade to Norges Bank. As we forecast the Riksbank to also make hawkish moves ahead, we expect the krona to remain stable.

Riksbank inflation forecast obsolete



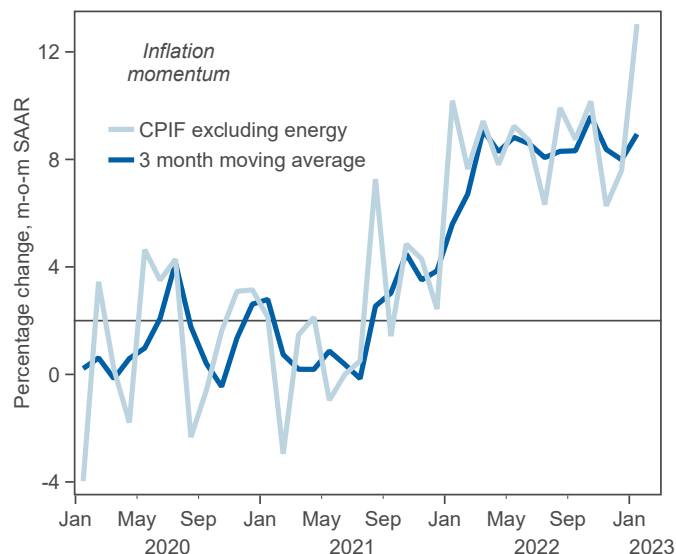
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Inflation still around 4% in early 2024



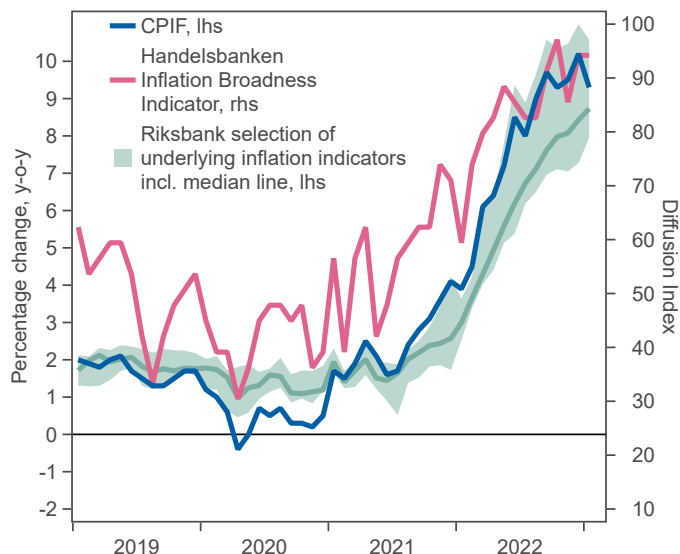
Sources: Macrobond, Statistics Sweden and Handelsbanken

Elevated monthly CPIFXE change already entrenched?



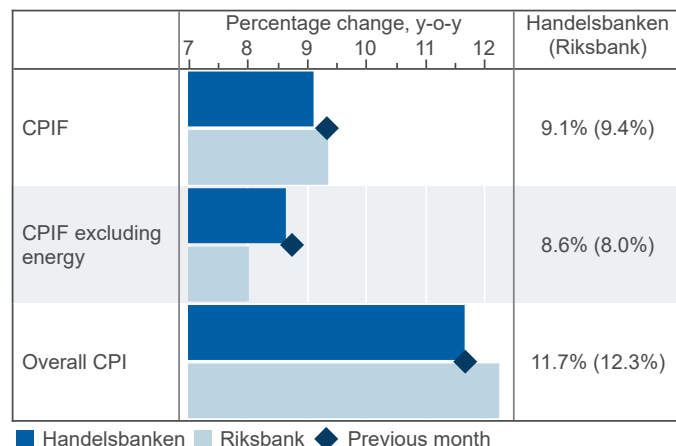
Sources: Macrobond, Statistics Sweden and Handelsbanken

Underlying inflation way too high



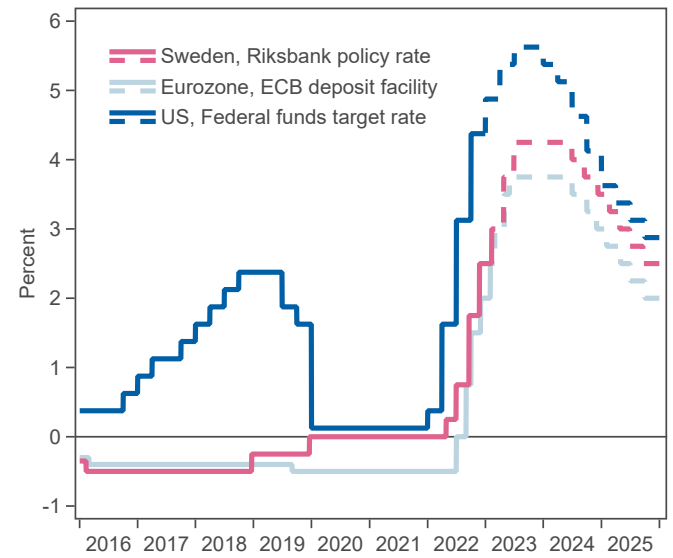
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

CPI February



Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

We revise up Riksbank, and other CB policy rates



Sources: Macrobond and Handelsbanken

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