

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Our conclusion is that the Riksbank's February inflation forecast is obsolete, and the Riksbank is far from achieving its 2 percent target "within a reasonable time", as it has been planning (see graph below).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

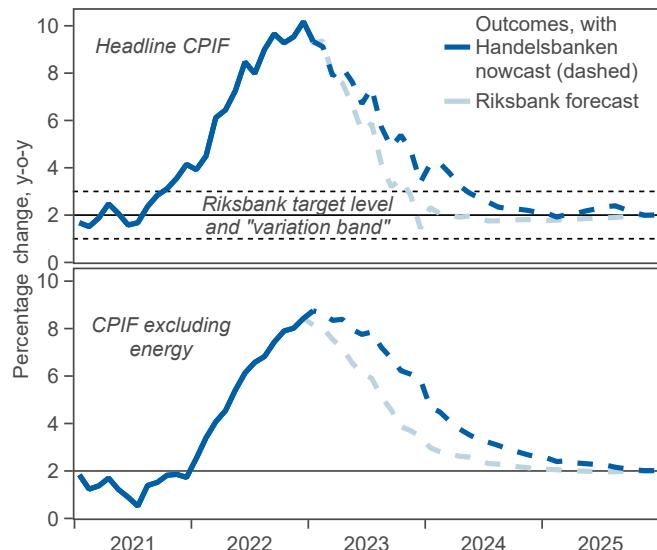
Forecast change: Riksbank to raise policy rate by 75bp in April, 50bp in June

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

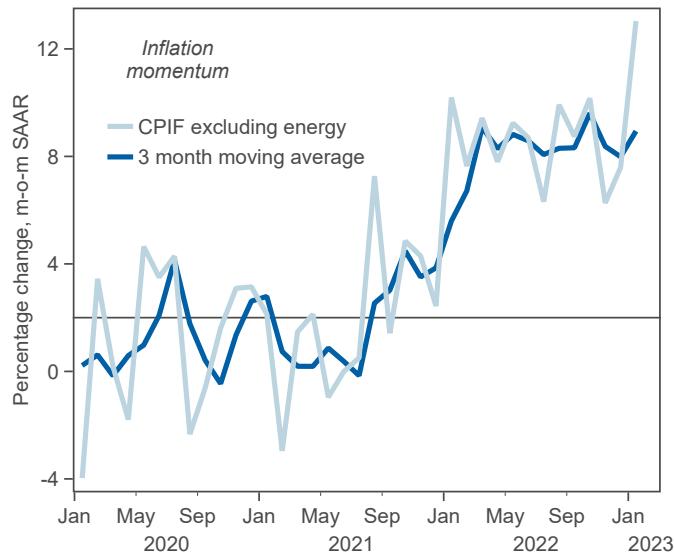
not giving rise to severe policy trade-offs at present - but if it was to become more marked, it could affect the Riksbank. Around the world, we see similar setbacks in the efforts to curb inflation, and today we are also revising up our forecasts for the ECB's and the Federal Reserve's policy rates, 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



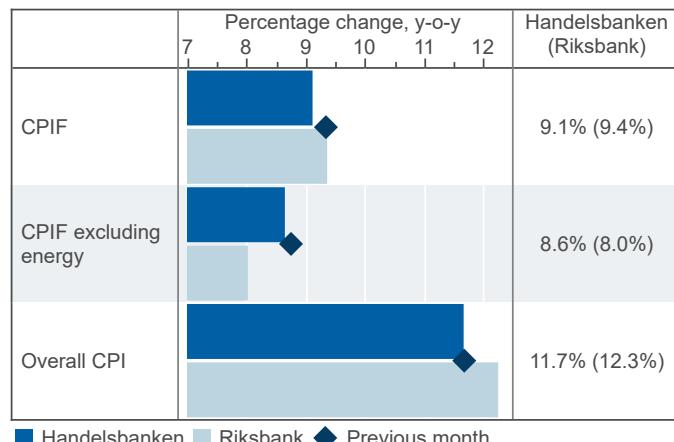
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Elevated monthly CPIF_{XE} change already entrenched?



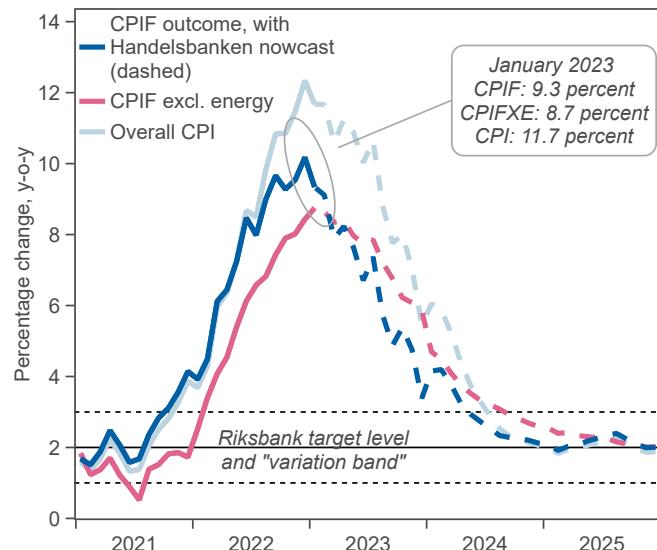
Sources: Macrobond, Statistics Sweden and Handelsbanken

CPI February



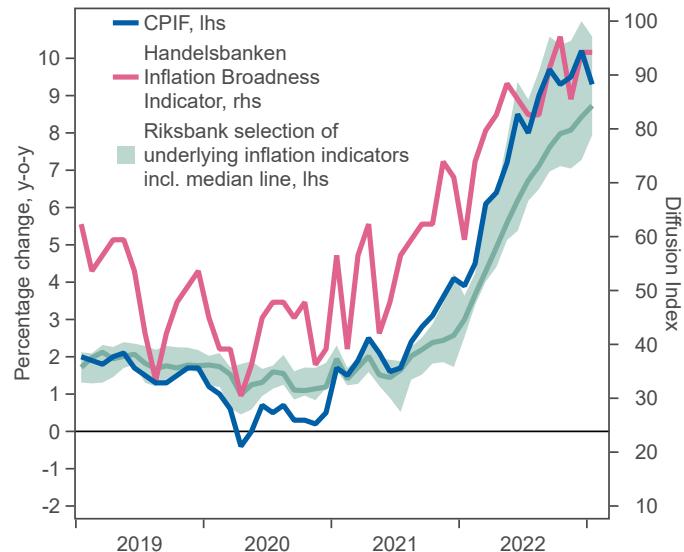
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Inflation still around 4% in early 2024



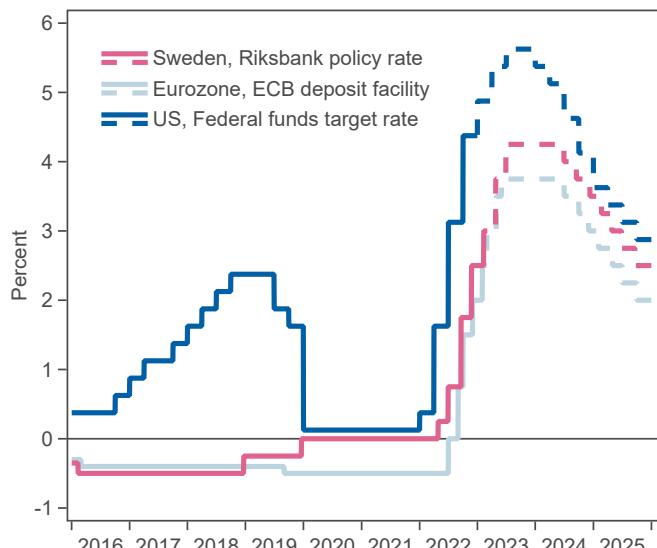
Sources: Macrobond, Statistics Sweden and Handelsbanken

Underlying inflation way too high



Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

We revise up Riksbank, and other CB policy rates



Sources: Macrobond and Handelsbanken

Johan Löf, +46 87015093, johan.lof@handelsbanken.se

Research disclaimers

Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports. SHB is regulated in Sweden by the Swedish Financial Supervisory Authority, in Norway by the Financial Supervisory Authority of Norway, in Finland by the Financial Supervisory Authority of Finland and in Denmark by the Danish Financial Supervisory Authority. All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information.

In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages.

The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change. There can be no assurance that future events will be consistent with any such opinions. Each analyst identified in this research report also certifies that the opinions expressed herein and attributed to such analyst accurately reflect his or her individual views about the companies or securities discussed in the research report. This research report does not, and does not attempt to, contain everything material that there is to be said about the company or companies described herein. For additional information about our research methodology please visit, <https://www.researchonline.se/desc/disclaimers>

Research reports are prepared by SHB for information purposes only. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Past performance may not be repeated and should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may forfeit all principal originally invested. Investors are not guaranteed to make profits on investments and may lose money. Exchange rates may cause the value of overseas investments and the income arising from them to rise or fall. This research product will be updated on a regular basis.

No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

The report does not cover any legal or tax-related aspects pertaining to any of the issuer's planned or existing debt issuances.