Fast Comment Sweden

A false dawn? May CPI report

- Headline CPIF inflation stays on downward trend; reaches 6.7 percent, led by energy prices
- Underlying inflation remains too high; we see slow disinflation ahead as wage pressure picks up
- June Riksbank decision to bring 25bp rate hike and accelerated QT

Headline CPIF inflation stays on downward trend; reaches 6.6 percent

The May CPI report shows headline CPIF inflation easing from 7.6 percent to 6.7 percent y-o-y, lower than the Riksbank's forecast, but in line with the more recently updated market expectations as well as our own forecast. At face value, this provides some relief for the Riksbank, but the outcome risks being a false dawn. Firstly, both a pickup in energy prices and the weakened krona now suggest less disinflation in coming months. Secondly, notice recent setbacks in the inflation fight around the world, not least Norway and the UK. Thirdly, there is the matter of sticky underlying inflation and what is likely temporary noise blurring the signals that we get about those price rise pressures.

Underlying inflation remains too high; we see slow disinflation ahead

CPIF excluding energy (CPIFXE) only took a small step down from 8.4 percent to 8.2 percent y-o-y. Part of this decrease is driven by what will likely turn out to be a, to some extent, temporary food price dip, as we discussed last month. Looking at other indicators of underlying inflation than the CPIFXE, we find worrisome developments:
a -- Core service prices hikes made a forceful comeback
b -- Broadness in inflation is still extreme (see charts)
c -- Our estimate of the direction for the Riksbank selection of underlying inflation indicators is roughly sideways at the current very high level

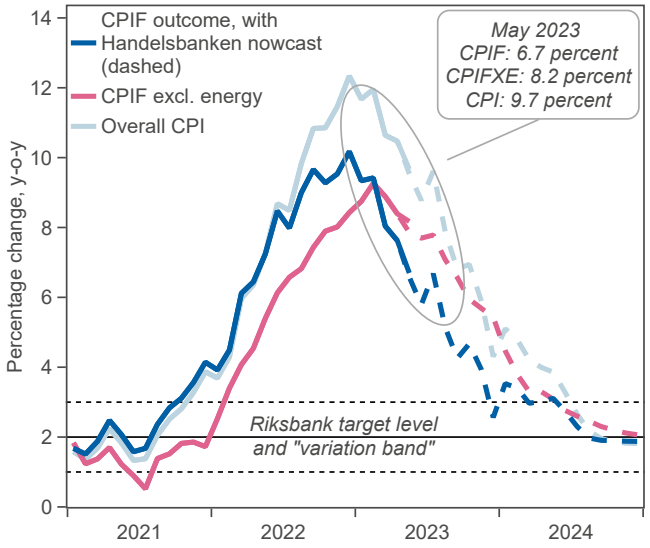
The consensus is starting to catch up with our long-standing forecast for high inflation in 2023, see graph below. The question is now what 2024 will be like? We forecast that the Riksbank's 2 percent target is reached more durably not until the latter part of 2024. Tomorrow sees the big quarterly Prospera survey, which will show a wider set of inflation expectations.

Key to the inflation outlook into 2024-25 will be the balance between, on the one hand, how fast the high business sector profit margins will be compressed and, on the other hand, how much higher wage growth we will see. We forecast that profit margins will be squeezed, and we are seeing the first signs that pricing power is waning. The profit share in the economy is currently high and we forecast slightly higher wage increases than normal ahead, even beyond the current two-year wage agreements. This, however, fuels cost pressures in companies and supports aggregate demand via households' disposable incomes in a fine balance, underscoring that it is likely that inflation will be sticky. Don't miss today's new Macro Comment on the labour share, profits and inflation!

June Riksbank decision to bring 25bp rate hike and accelerated QT

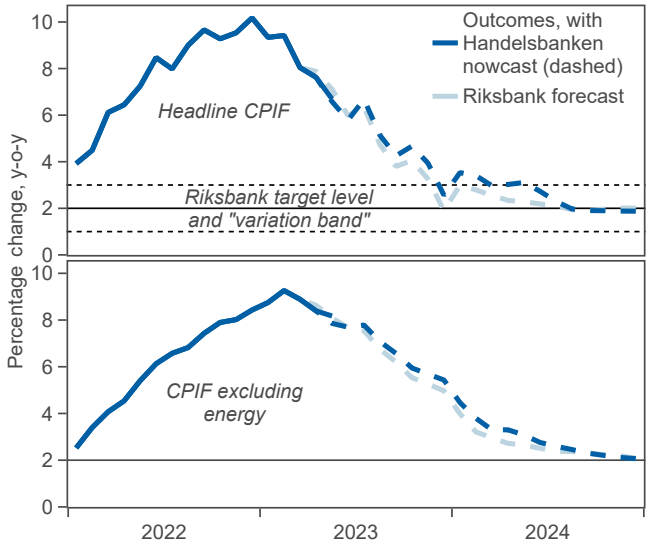
Today's outcome strengthens our forecast for a 25bp policy rate rise at the Riksbank's June meeting - remember that the Riksbank had been entertaining the idea of a pause. Two weeks ago we changed our forecast for the Riksbank's asset holdings, and expect a June decision to increase the pace of bond sales, see Swedish Rate Wrap. The risk of a new and unexpected surge in inflation is now subdued, so the Riksbank has some peace and quiet to continue its work, but it is too early for the Riksbank to declare victory over inflation. We expect cautious rate cuts to begin by mid-2024, see the May edition of Global Macro Forecast (English version, and Sweden-focused Swedish version).

Inflation vs Handelsbanken forecast



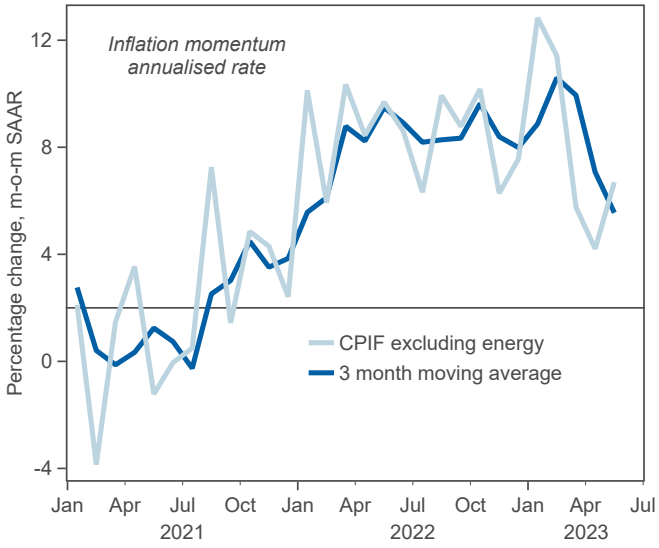
Sources:Macrobond, Statistics Sweden and Handelsbanken

Riksbank and Handelsbanken forecasts



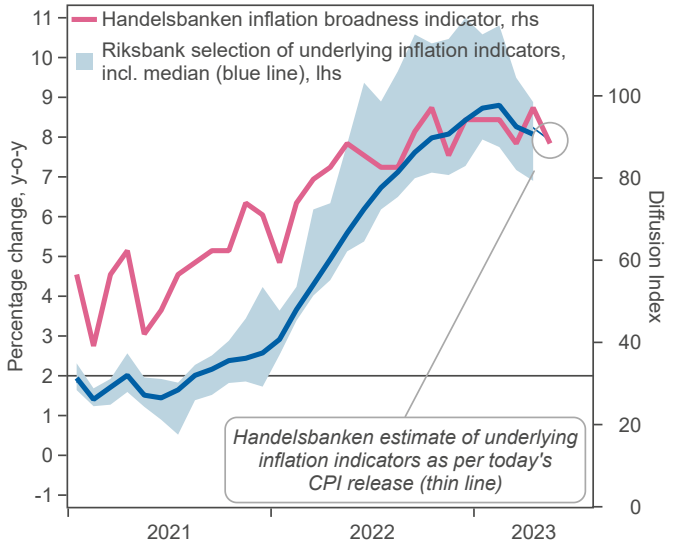
Sources:Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Momentum: Underlying inflation CPIF excluding energy



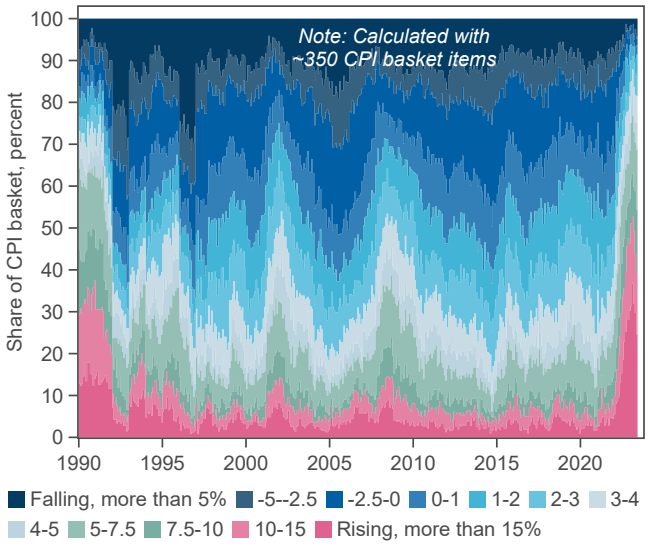
Sources:Macrobond, Statistics Sweden and Handelsbanken

Underlying inflation indicators

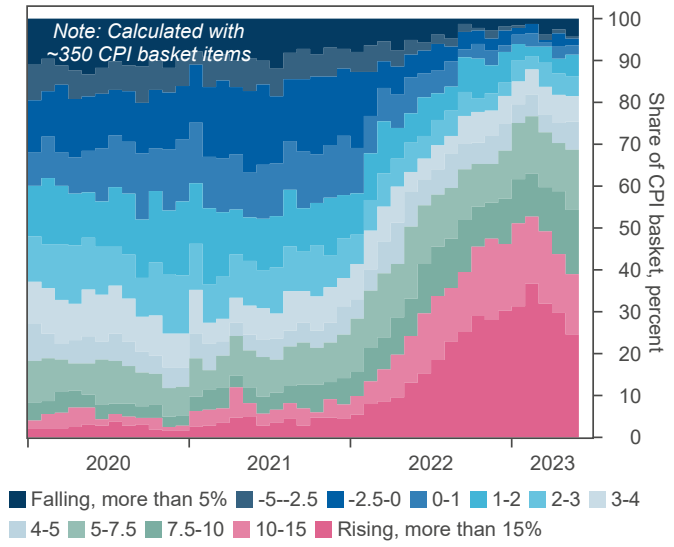


Sources:Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Distribution of price changes in the CPI basket, also...

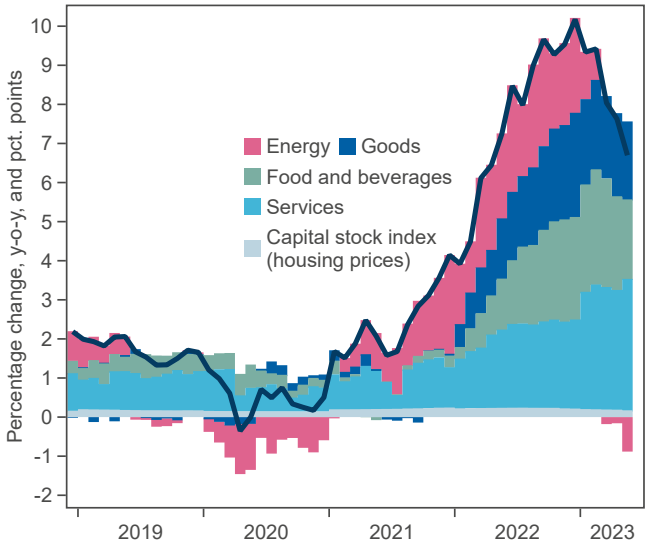


...zooming in on recent developments



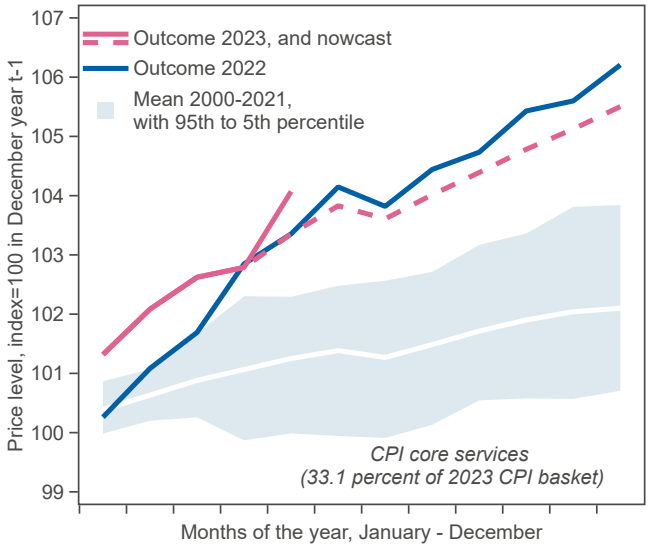
Sources:Macrobond, Statistics Sweden and Handelsbanken

Component contributions to headline CPIF



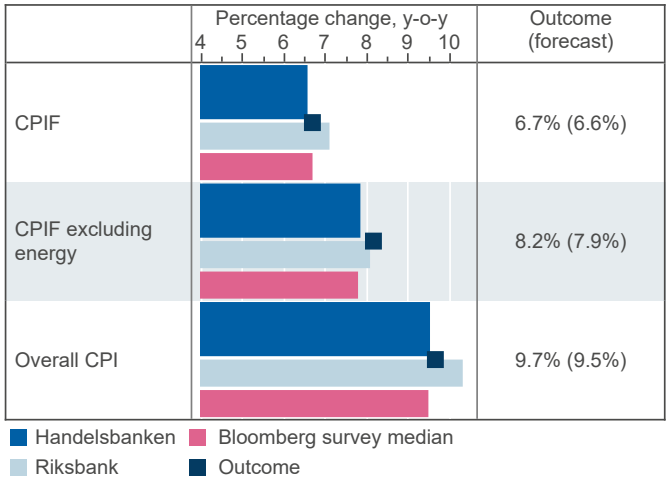
Sources:Statistics Sweden and Handelsbanken

Core service prices picked forcefully

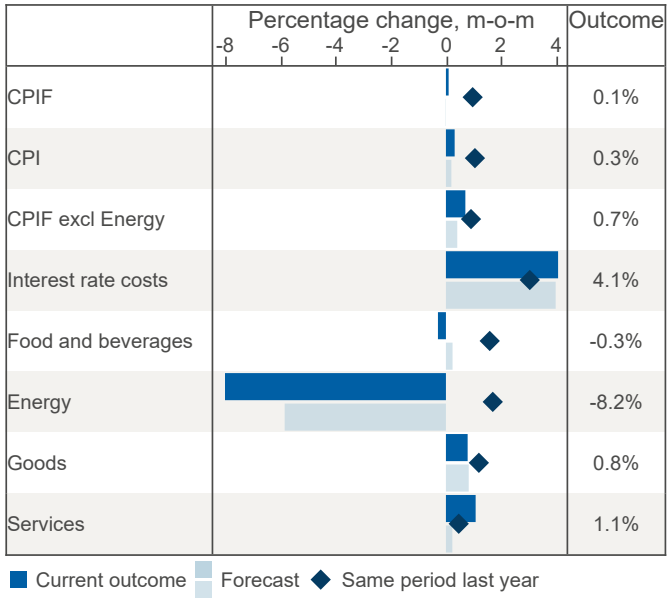


Sources:Statistics Sweden and Handelsbanken

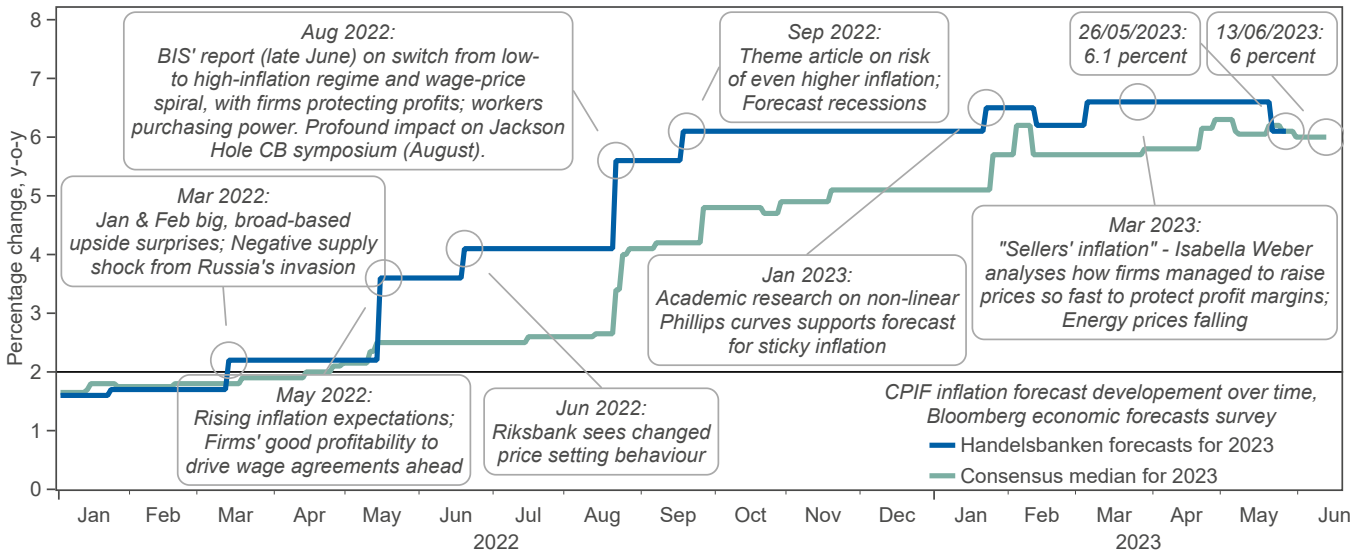
CPI May: Key inflation measures



CPI May: Aggregate components

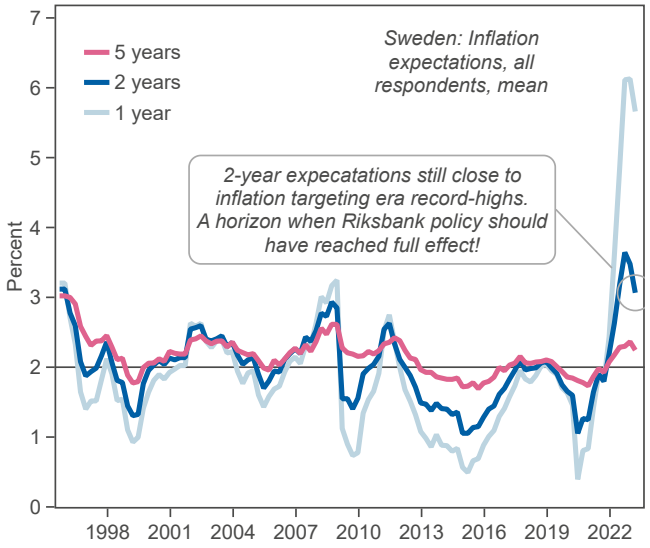


The story behind our long-standing above-consensus inflation forecast



Sources:Macrobond, Bloomberg and Handelsbanken

Prospera inflation expectations survey out tomorrow...

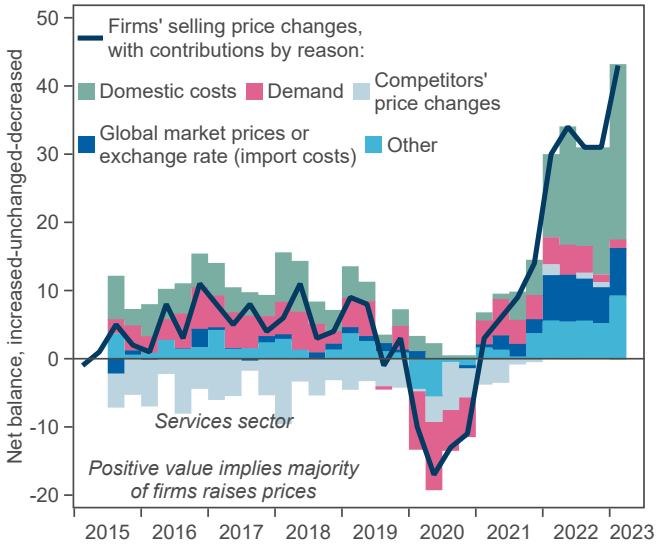


...and wage pressure signal will be key to the Riksbank

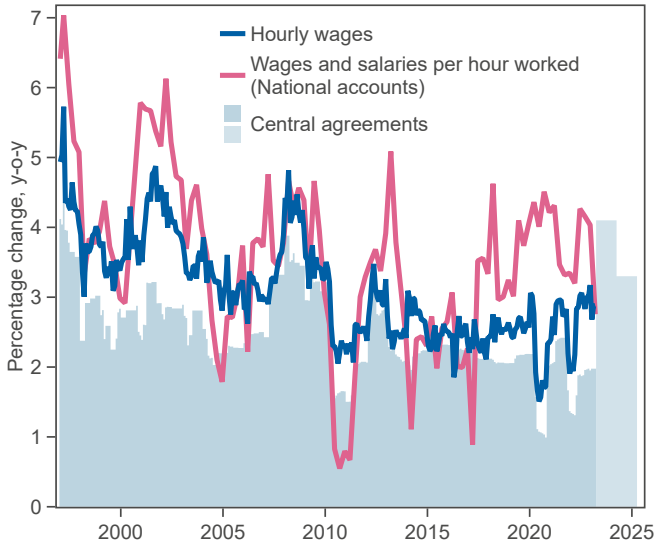


Sources:Macrobond, Kantar Prospera and Handelsbanken

"Sellers' inflation": Competitor actions adding to inflation



Rising wages the next phase of inflation



Sources:Macrobond, NIER and Handelsbanken

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