Fast Comment Sweden

Inflation hitting target, but not stabilising there; December CPI report

- Headline CPIF virtually at target, but the drop to 2.3% is a base effect from 2022 energy spike
- Inflation excluding energy prices still elevated (5.3%) and current monthly momentum too high
- We forecast inflation above 3% in January; Riksbank not likely to cut policy rate before summer

Headline CPIF virtually at target due to base effect from 2022 energy spike

The December CPI report shows headline CPIF inflation falling to 2.3% y-o-y from 3.6% in November — a sharp drop it could seem but no, it was very much in line with the Riksbank's forecast, and our forecast as well as those of other analysts (see graphs and tables below). The reason such a drop could be successfully forecast is because it mostly depended on a base effect from the electricity price spike in December 2022, i.e. CPI December 2023 is compared to a higher base than CPI November 2023 was.

Goods prices rebounded in December after the unusually large drop last month amid "Black weeks" sales.

Underlying inflation still elevated; we see CPIF pickup to above 3% in January

CPIF excluding energy (CPIFXE) inflation — one indicator of underlying inflation — came in at 5.3% y-o-y, down from 5.4% in November. The monthly pace in CPIF excluding energy and international travel, a Riksbank favourite, picked up sharply to over 4% in annualised terms. This highlights that underlying inflation is still high.

We forecast underlying inflation will linger clearly above 2 percent, at the very least during Q1 2024, and likely longer. Sweden still exhibits high cost pressures, as we described in our Gordian knot of disinflation analysis in our September macro forecast report (see research appendix below). And companies' pricing plans, both in Sweden and globally, are still significantly elevated.

Also, buckle up for the uncertainty of the CPI basket re-weighting effect in January.

Our next Global Macro Forecast, with a theme article on policy rate cuts, is out on January 24. Stay tuned!

Riksbank not likely to cut policy rate before summer

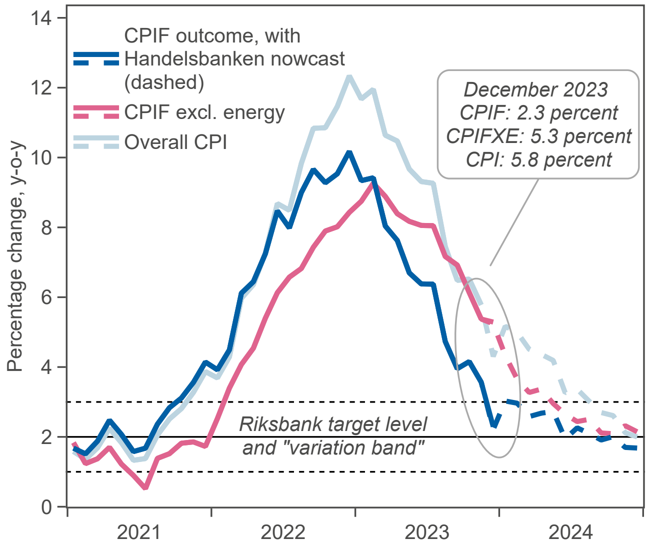
We have some nerve-racking months ahead of us — a frustrating situation for all of us, particularly the Riksbank, which will announce its next policy decision on February 1. The Riksbank cannot yet conclude that inflation is on a credible path to sustainable target achievement. Of course, the Riksbank has the tools to bring inflation back to 2 percent sooner or later. Ideally, however, the target should be achieved in a timely fashion and without unnecessary harm to the wider economy.

Apart from our above 2 percent short-term forecast, another obstacle is that upside risks to inflation persist, although admittedly they have decreased. One example is the elevated short-term inflation expectations, which imply that a Riksbank turning too dovish too soon would be risking a renewed rise in longer-term expectations as well, paving a road for inflation to reaccelerate again. Remember that so far the rise in long-term expectations is a welcome one (after the post-GFC period exhibited partly undesirably low inflation expectations) and current levels are in line with the Riksbank's 2-percent target, and this is important to safeguard ahead of future price- and wage-setting decisions among companies and households.

Our current call is for a first policy rate cut in August, after major central banks like the Fed (May) and the ECB (June) have started to cut rates.

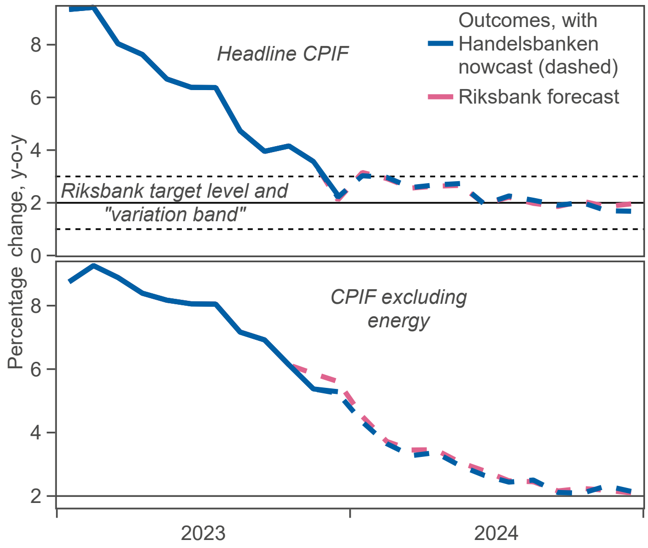
Please see full PDF version of this comment to access extra chart pack and the research links appendix.

Inflation outcomes, and Handelsbanken forecast



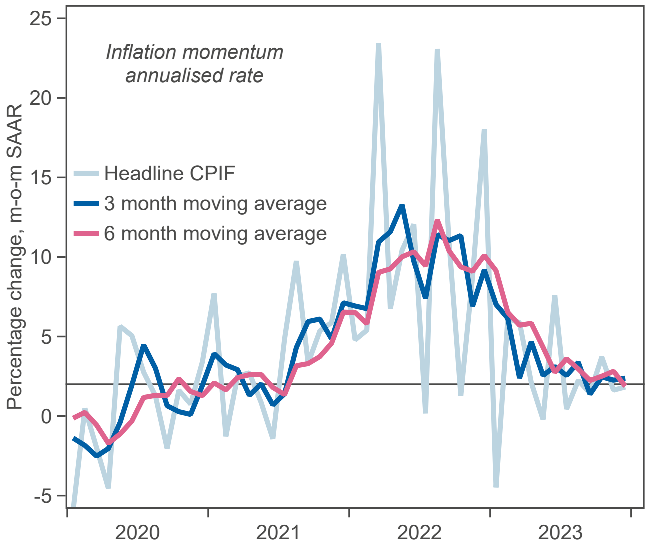
Sources: Macrobond, Statistics Sweden and Handelsbanken

Inflation forecasts: Riksbank vs. Handelsbanken



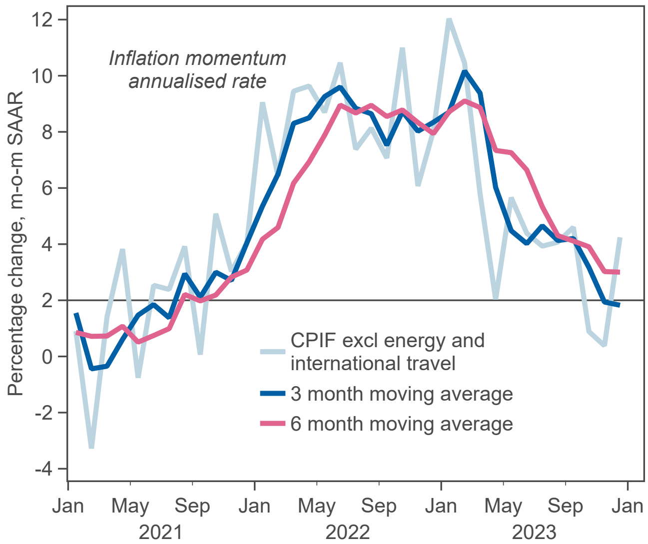
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Inflation momentum: CPIF



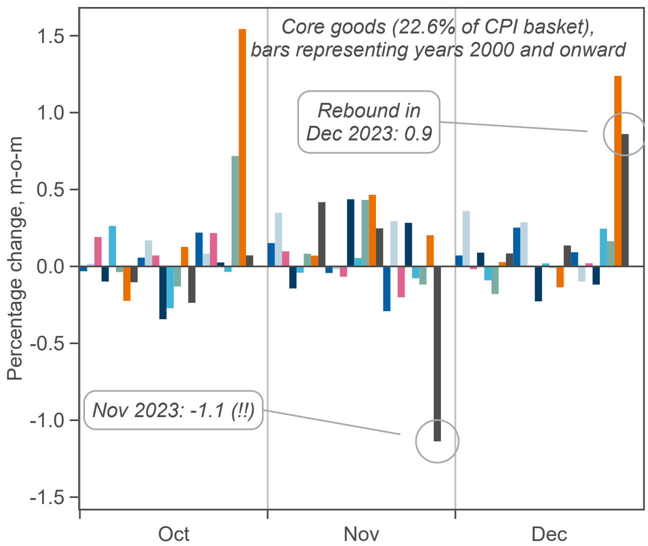
Sources: Macrobond, Statistics Sweden and Handelsbanken

Momentum: CPIF excl. energy and international travel



Sources: Macrobond, Statistics Sweden and Handelsbanken

Core goods prices rebounded



Sources: Macrobond, Statistics Sweden and Handelsbanken

CPI December: Key aggregates

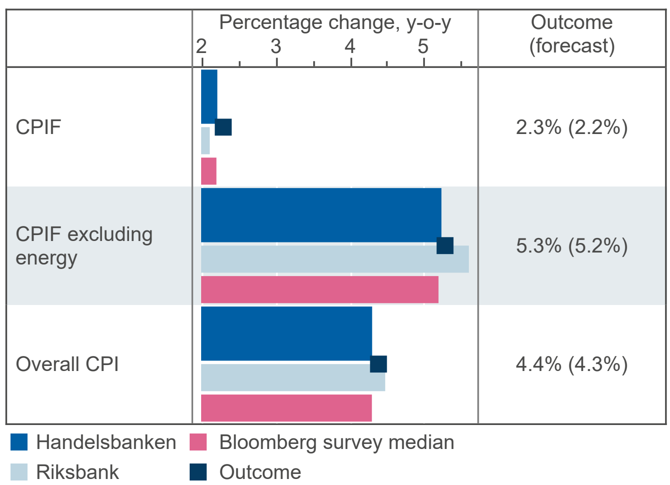


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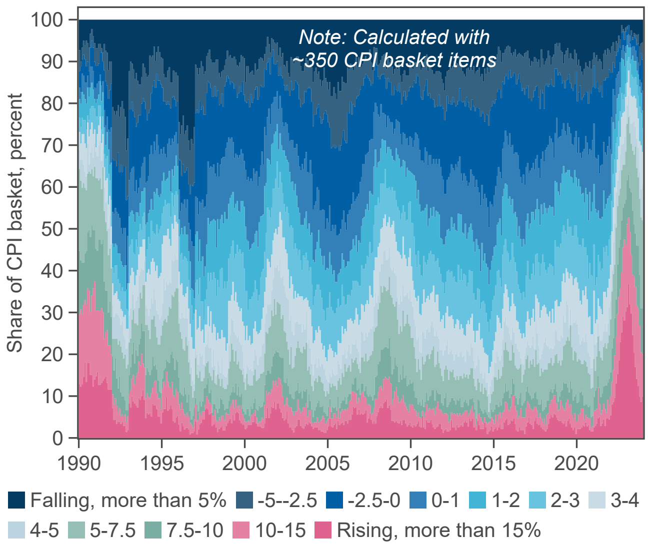
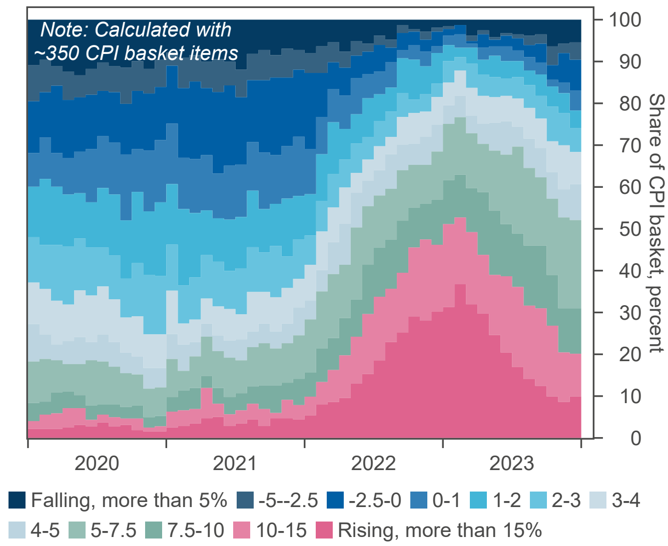
Chart pack: Additional CPI report inflation graphs

Distribution of price changes historically hot...

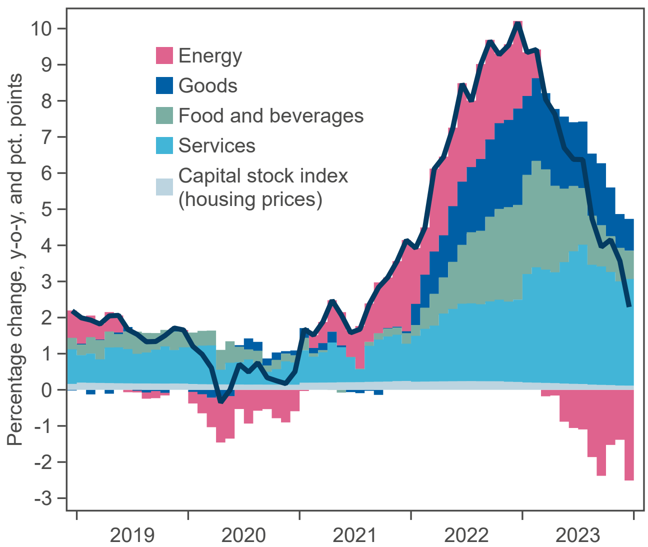


Sources: Macrobond, Statistics Sweden and Handelsbanken

...and improvement halted in December

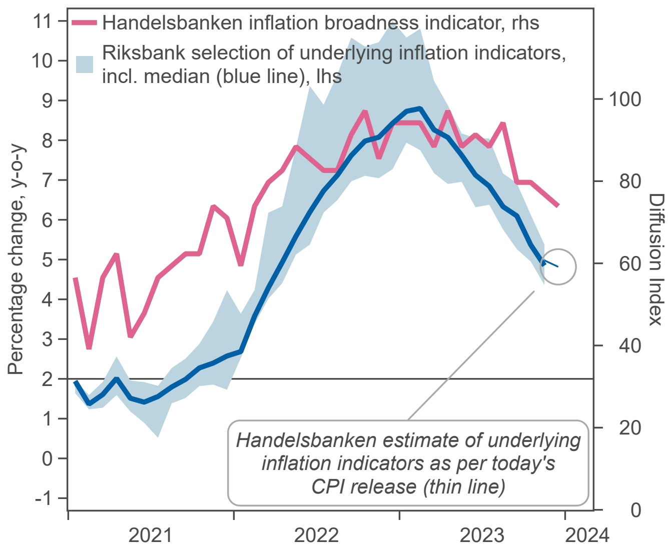


CPIF: Energy contribution plummets on base effect



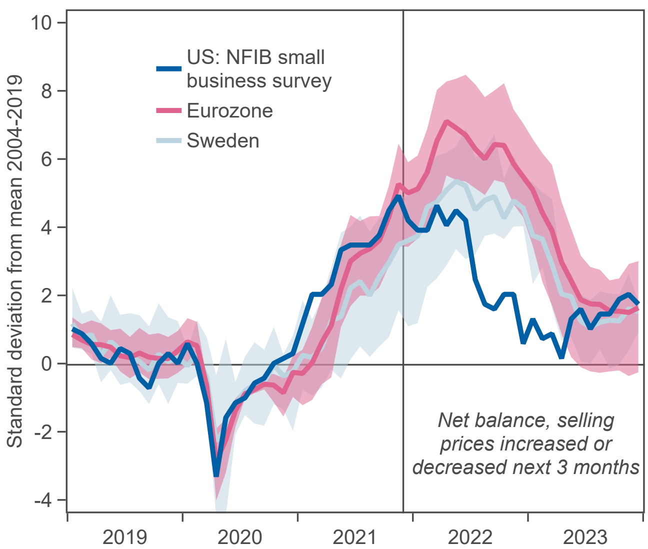
Sources: Macrobond, Statistics Sweden and Handelsbanken

Underlying inflation did not slow much in December



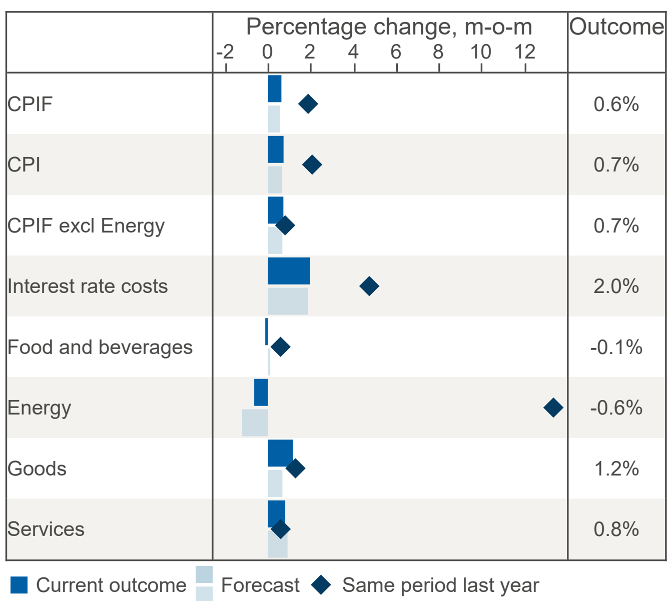
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Pricing plans show inflation risks persist for Q1 2024



Sources: Macrobond, Eurostat, NFIB and Handelsbanken

CPI report: December aggregate components



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)
"Climb cancelled and not to be continued, we conclude";
--- November Riksbank monetary policy decision
"On target. But not yet time for Riksbank victory lap";
--- December CPI preview

Key in-depth analyses

Inflation
"Do not expect service price inflation to normalise and do not worry too much about it"
--- Macro Comment, Dec 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 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, Oct 6, 2023
"A currency hedged FX reserve is no FX reserve";
--- FX Pilot, Oct 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, Oct 26, 2022

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