Fast Comment Sweden

Is inflation becoming entrenched? August CPI report

- Another record: As expected, CPIF hits the 9-percent milestone
- Increases likelihood of multiple 75bp hikes from Riksbank, tomorrow's Prospera survey key
- Turning point indicators starting to show, but could inflation go the other way?

Another record: The 9-percent milestone passed

The August CPI report shows the gap between inflation and the Riksbank's forecasts widening further - forecasts that governor Stefan Ingves had already labelled as obsolete. In August, headline CPIF inflation picked up sharply to 9.0 percent y-o-y, from 8.0 percent in July. And, even more worrisome, underlying inflation continued to rise, e.g. in terms of CPIF excluding energy (CPIFXE), which reached 6.8 percent. The outcomes were, more or less, in line with our expectations and the consensus view. Note that the traditional CPI inflation rate is even higher at 9.8 percent, since it is spurred on by the currently sharp mortgage rate rises.

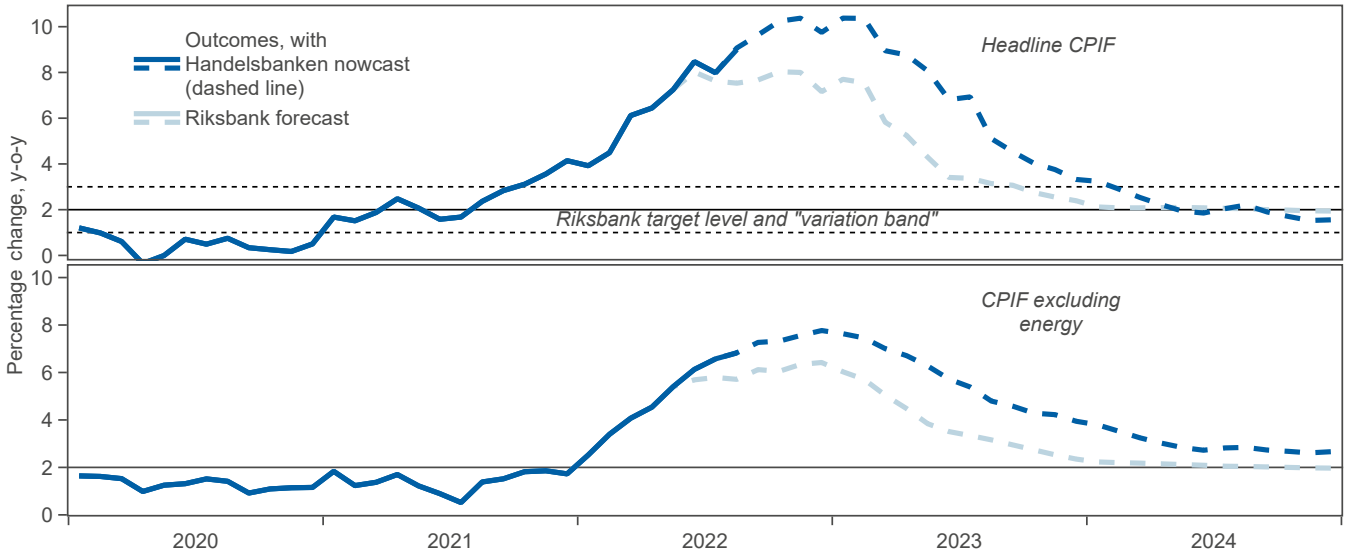
Increases the likelihood of multiple 75bp hikes from the Riksbank

For every month of high, broad-based inflation that passes, the risk of inflation becoming entrenched increases. In July, we changed our September Riksbank call to a 0.75 percentage point policy rate rise, after the continued surge in underlying inflation and its near-term outlook. Governor Ingves has since telegraphed that the Riksbank is indeed likely to raise by more than the 0.50pp it had communicated in June. Today's high inflation, not least CPIFXE and our estimates of other underlying inflation gauges, increases the likelihood that the Riksbank will raise by more than 0.50pp in November as well, but for the time being we stick with our forecast. Note, however, that key data arrives again tomorrow, with the full, quarterly Kantar Prospera Inflation Expectations Survey. If the data shows clear signs of an increasing risk of a wage-price spiral, then the Riksbank could go higher, and more front-loaded, with the policy rate. Keep a close eye on both inflation and wage expectations of the labour market parties.

Turning point indicators starting to show, but could inflation go other way?

Since before the summer, we have been on the hunt for turning point indicators - could underlying inflation start to ease soon? Now commodity prices and manufacturing input prices have partly started to cool, hand in hand with waning global growth momentum and less severe supply chain disruptions. But this may be insufficient to tame inflation. The high inflation has awakened forces that we have not seen during the lowflation era, with rising inflation expectations (even sharply among households and firms), signs of wages drifting above central agreements and businesses having unusual pricing power helping them to compensate for higher costs. The prerequisites for a wage-price spiral are in place, hopefully one can be avoided. In next week's Global Macro Forecast report, we dig deeper into the risk of a high inflation regime.

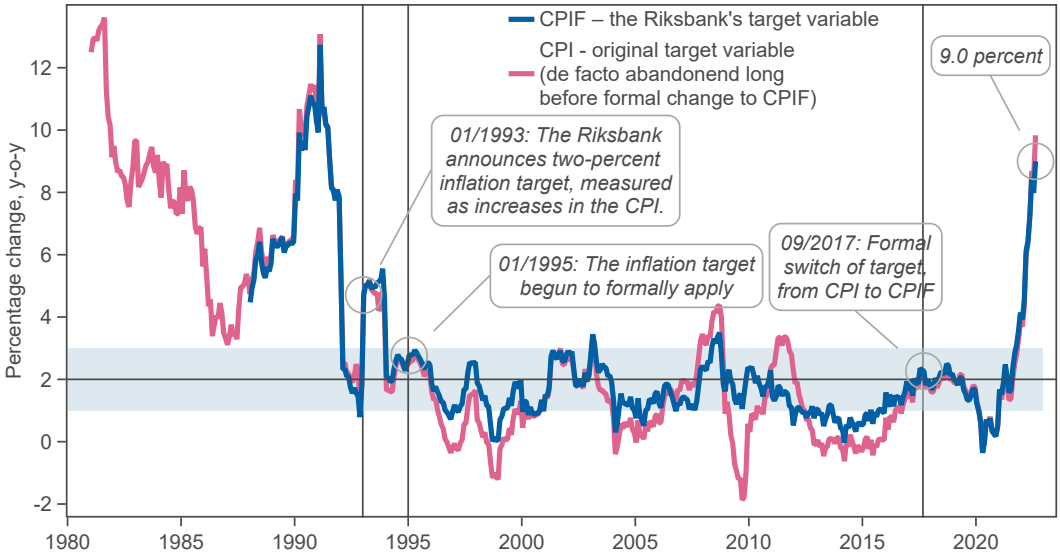
Inflation forecasts



Sources: Macrobond and Handelsbanken

Another record

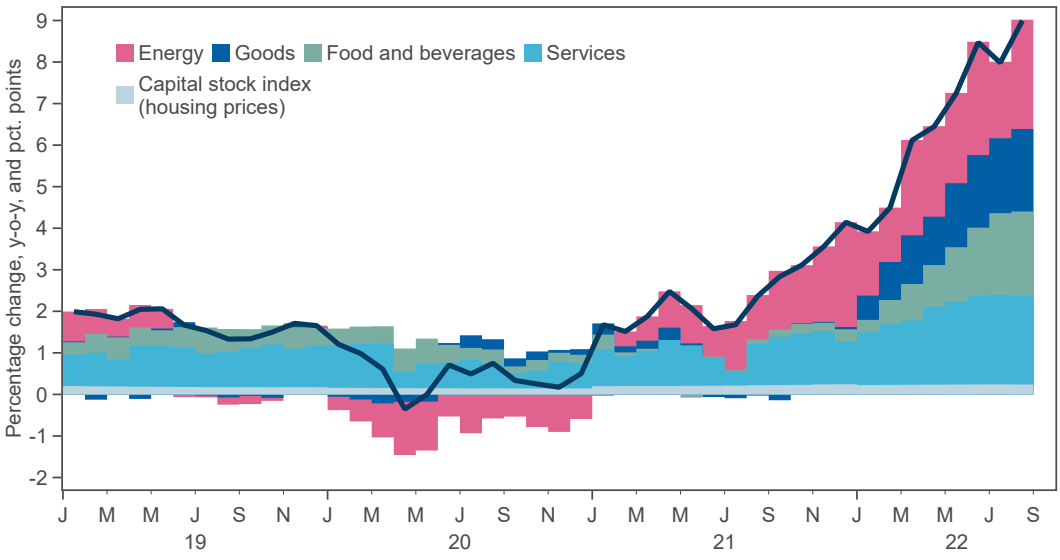
Inflation in a longer perspective



Sources: Macrobond and Handelsbanken

Not just energy prices

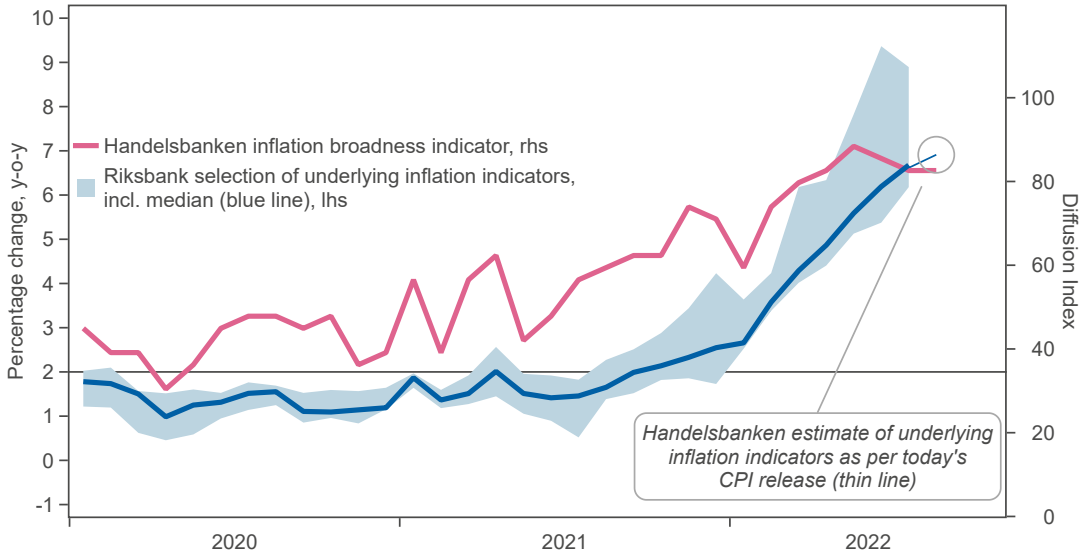
Contributions to inflation



Sources: Macrobond and Handelsbanken

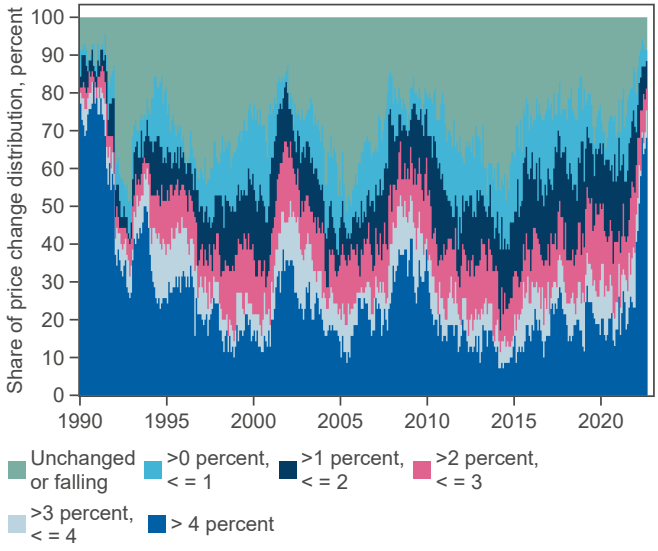
Even stronger underlying pressure, we estimate

Underlying inflation gauges



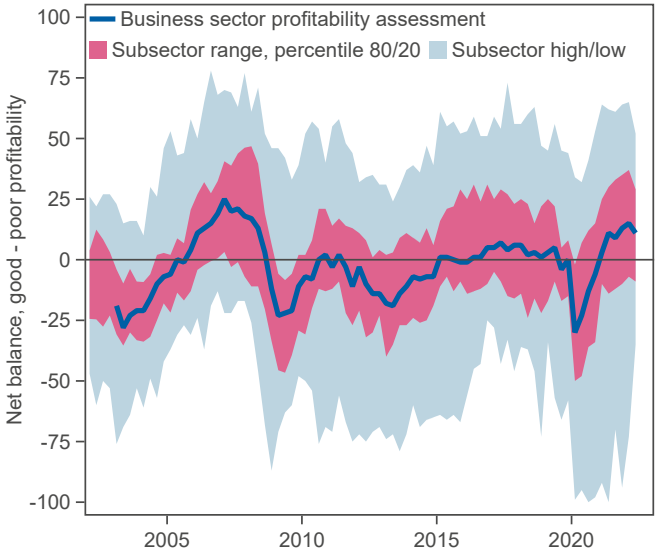
Sources: Macrobond and Handelsbanken

Pricing behavior like before inflation targeting



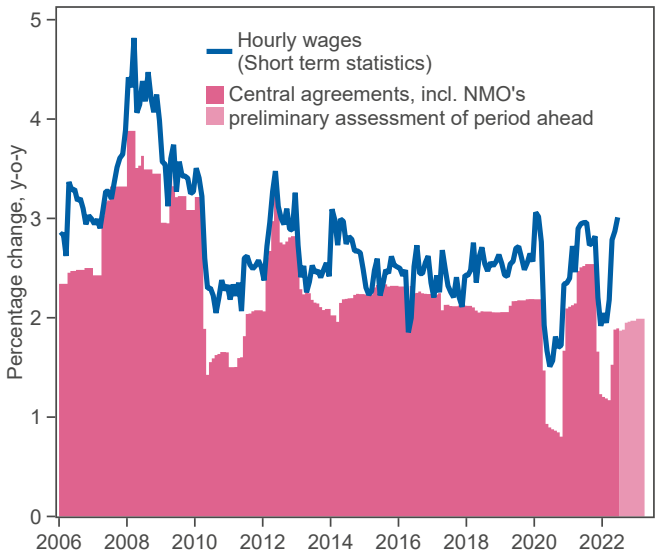
Sources: Macrobond and Handelsbanken

Firms have pricing power



Sources: Macrobond and Handelsbanken

Signs of wage drift



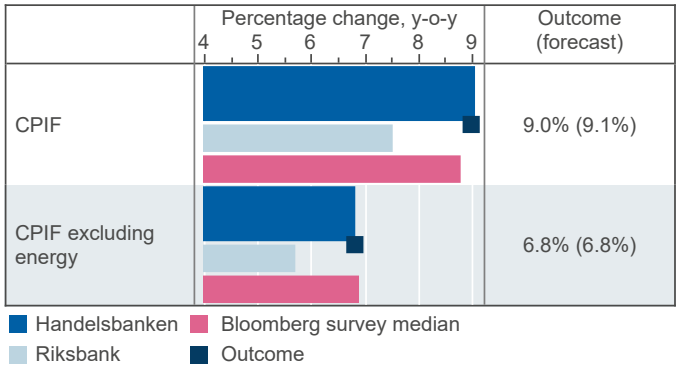
Sources: Macrobond and Handelsbanken

Will wage expectatations rise like in Norway

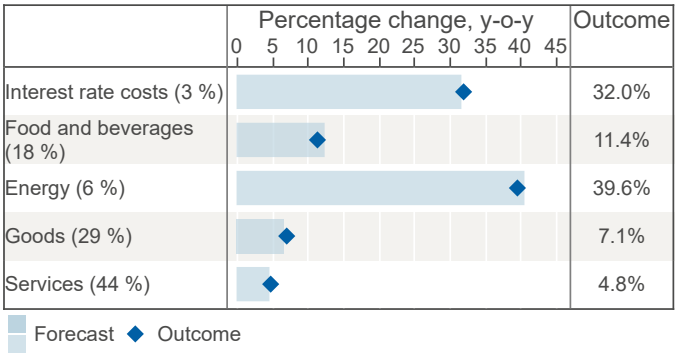


Sources: Macrobond and Handelsbanken

CPI August



CPI August component aggregates



Note: Component weight in CPI in brackets.
Sources: Handelsbanken and Statistics Sweden

Johan Löf

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