

## Another downside surprise in Swedish inflation

After a relatively strong September figure, Swedish inflation reverts to form. October inflation disappoints, which nudges the likelihood of a December rate hike a bit lower



Shoppers in Stockholm

# 1.5%

 October CPIF core inflation

Lower than expected

October CPIF inflation fell from 2.6% to 2.4% (vs 2.5% consensus and Riksbank forecast) and the core CPIF measure fell from 1.6% to 1.5% (vs 1.7% forecast by the Riksbank). The downside surprise is not large but continues a pattern seen for most of this year with inflation continuously weaker than expected by forecasters. This is the eighth month out of ten so far this year that the Riksbank's forecast has proven to be too optimistic.

As has often been the case, lower prices for package holidays were a key driver of the downside

surprise. Lower food price inflation also pushed down on the inflation figure. To the extent that these are temporary effects, this doesn't look too bad for inflation prospects.

But the service inflation measure also fell, from 1.9% to 1.6%, suggesting underlying price pressures remain subdued. With wage growth showing few signs of accelerating from the 2.5% pace seen over the past couple of years, we struggle to see how core inflation will reach 2%. And the recent sharp oil price fall will soon start to push the headline figure down as well, further undermining the argument that inflation is sustainably on target.

The key near-term question for the Riksbank is whether to hike interest rates in December or February. Today's figure shifts the likelihood towards February, as it suggests the Riksbank's inflation forecast may need to be revised down yet again. Near-term indicators also suggest Q3 growth (published at the end of November) is likely to be weak. That could be enough to push the ever cautious Riksbank to delay the rate hike into next year.