Low Swedish inflation set to scupper Riksbank rate hike plan

Inflation in Sweden is set to remain at a multi-year low, suggesting the Riksbank's proposed rate hikes are unlikely to materialise. Although equally, we're not pencilling in rate cuts either

Source: Shutterstock

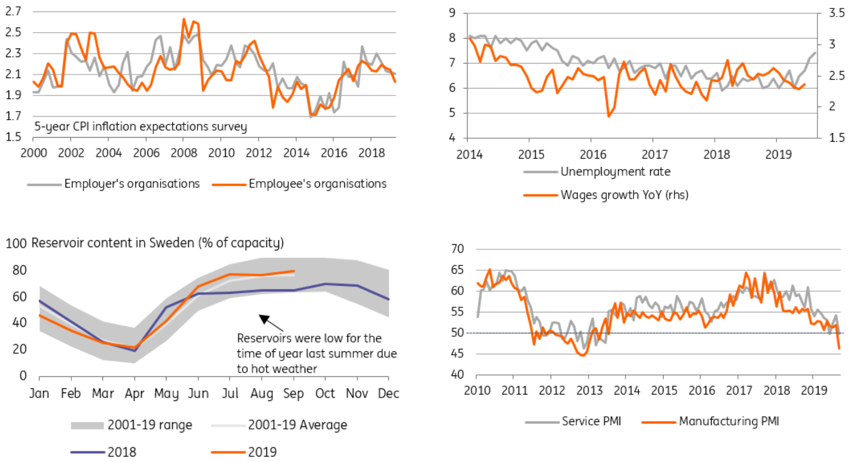
At the Riksbank's September meeting, policymakers signalled rates could rise again as soon as the end of this year. But with global growth concerns mounting and inflation well below target, that looks increasingly unlikely to materialise.

Tomorrow's inflation data likely to remain low

Tomorrow's CPIF data looks likely to show annual inflation at 1.1-1.2% - another three-year low. Admittedly, much of this has to do with electricity prices, which have slipped quite noticeably on a year-on-year basis. Last year's hot summer saw reservoirs dip, and that pushed electricity prices abnormally high for the time of year.

As that effect fades, we expect inflation to inch slightly closer to target – we're pencilling 1.4%

annual CPIF for 2020 (the Riksbank's looking for 1.7%). But the medium-term story will depend heavily on wages.



Source: Macrobond, ING

While the Riksbank remains optimistic on the outlook for wages given the stronger projected productivity growth, there are increasing signs that wage growth will remain subdued.

The increasingly uncertain investment outlook, coupled with slipping inflation expectations over the summer among employees and employer organisations, suggests that next year's key wage negotiating round may not produce a materially stronger result. According to a survey by Prospera commissioned by the central bank in Stockholm, inflation expectations have also been decreasing amongst money market players.

The more general news on growth has also been fairly disappointing. The unemployment rate recently unexpectedly spiked, while there are early signs that the total number of people in employment is falling. Both the manufacturing and services PMIs are also below the break-even 50 level.

All of this suggests that the Riksbank is unlikely to follow through with its forecasted rate hikes – although equally, we're not pencilling in rate cuts either.

The central bank appears more relaxed about the currency than in the past – in previous ECB easing episodes, policymakers were keen to prevent the krona strengthening. But this time, SEK has been consistently weaker and our FX team think EUR/SEK could slip further to 11.00 over the next three months (current spot 10.91).

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