

## Sweden: Inflation dip unlikely to faze Riksbank

The latest dip in headline CPIF, and the fact that it is likely to remain below target for the rest of this year, is unlikely to faze the Swedish Riksbank. Policymakers have been hinting at a late-2019 rate hike, but we think there's a risk that next year's wage negotiations disappoint, suggesting that rates may in fact stay on hold



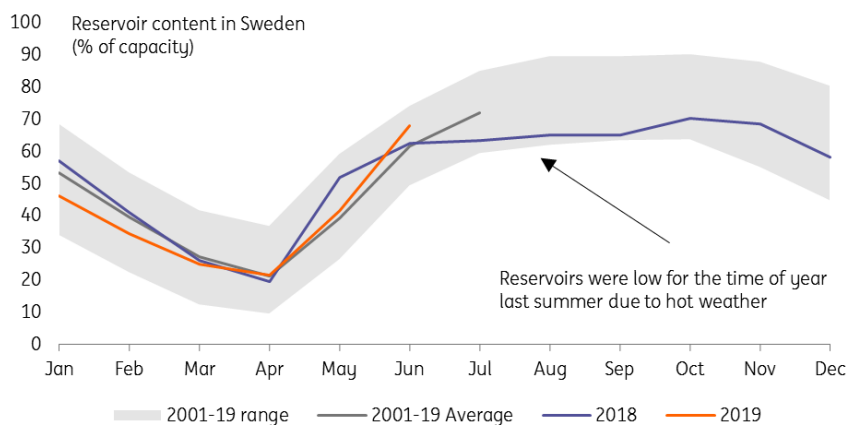
On the face of it, the slide in headline Swedish inflation (CPIF) from 2.1% in May to 1.7% in June may seem disappointing. In reality though, much of this has to do with energy prices and is partly down to the fact that electricity prices were soaring at the same time last year as a result of the warmer weather. Reservoir levels dipped below their typical values for the time of year. Things are back to normal this year, and in year-on-year terms, gas and electricity prices dipped by 1.1% in June.

Importantly, the Riksbank has already factored all of this into its forecasts and in fact the June CPIF figure was slightly above what they had anticipated in the latest inflation report. In principle then, there's nothing in these latest figures to alter the Riksbank's guidance that rates could rise again as soon as late-2019.

We are less convinced however, and this is partly because we think there's a risk that next year's key wage negotiations generate a more lacklustre outcome than policymakers are expecting. Both inflation (CPI) and wage expectations over a five-year horizon have been declining among employee's labour organisations.

Throw in the risks that global trade tensions could pose for Sweden's relatively open economy, and we think rates are likely to be kept on hold for the foreseeable future by the Riksbank.

## Swedish reservoir levels dipped last summer



Source: Svensk Energi

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