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Snap

Scandi inflation update

Slight disappointment in Norwegian inflation data, while Swedish inflation is in line with consensus expectation for once

Both Norway and Sweden published inflation figures for April this morning. Here are the key takeaways:

1 In Norway, headline inflation was 2.4%, but the core measure was only 1.3%. While the headline figure was in line with Norges Bank's forecast and a touch above market consensus, the core measure was a bit below the central bank's forecast of 1.6% on average for the second quarter and consensus expectations.

The main reason for this was a surprise fall in the price of clothing and shoes, which continued to fall after several months of YoY falls. Another reason for the Norges Bank's forecast miss is the change in VAT this year, which the central bank expected to push down on inflation by about 0.2pp but so far this year has reduced inflation figures by 0.3pp most months.

2 In Sweden, headline CPIF inflation was 1.9% while the core measure stood at 1.4%. For the first time this year, both figures were in line with the Riksbank's forecast and market expectations. That will provide some comfort to the central bank, which has already had to revise its core inflation forecast down twice this year. But the outlook for inflation still looks pretty poor in Sweden. Domestic price pressure shows little sign of picking up, which means core inflation will likely remain soft over the summer.

So what does this mean for the two Scandinavian central banks?

Norges Bank still looks on track to hike rates in September this year, though today's inflation figures add to a run of slightly disappointing data. The possibility of an even earlier hike now looks remote, but as long as oil prices hold up and the upward trend in Norwegian growth and inflation remains intact the central bank will deliver on the September hike.

For the Riksbank, today's inflation figures will come as a relief. It would have been problematic to see yet another forecast miss so soon after its last update (as happened in February). But the overall outlook remains unchanged. Domestically generated price pressure is not sufficient to reach the 2% target. Though higher energy prices and the weaker SEK will push up on inflation, those are temporary factors.

We think the cautious majority on the Riksbank policy committee will not see this as sufficient reason to raise rates this year, and instead expect the Swedish central bank to delay its first rate hike well into 2019.

> We expect the Swedish krona to remain under pressure this year which is why we've raised our EUR/SEK forecast

Jonas Goltermann
Developed Market Economist
+44 20 7767 6909
jonas.goltermann@ing.com