

## Swedish inflation surprises on the downside yet again

Another weak inflation reading means the Riksbank is less likely to hike rates next week



# 1.4%

Core CPIF inflation

In November

Lower than expected

Swedish inflation for November came in weaker than expected.

Headline CPIF measure stands at 2.1% (vs 2.2% consensus expectation and 2.4% in the Riksbank's October forecast) and the core measure excluding energy at 1.4% (vs 1.7% in the Riksbank's forecast).

While lower headline inflation is not all that surprising given the fall in oil prices over the past two months, the anticipated drag from lower petrol prices was largely offset by higher electricity prices.

Instead, the lower inflation reading is down to weaker core inflation, which is more concerning from the central bank's perspective as it suggests underlying price momentum is insufficient to keep inflation at the 2% target. That said, much of the weakness is down to the perennially volatile air travel and package holidays components, which are more noise than signal. The service price aggregate fell only slightly to 1.6%.

Today's downside surprise reduces the probability that the Riksbank will raise interest rates at its policy meeting next week.

Our view remains that weak inflation data over the autumn combined with the very poor Q3 GDP reading and the increasingly uncertain international environment will be enough to push the ever-cautious Riksbank majority led by Governor Ingves to postpone the rate hike into February.

But it's a close call, and we can't exclude the possibility that policymakers have a more optimistic assessment of the outlook, and chose to look through near-term weakness and hike rates anyway.