

Swedish Inflation

January Flash CPI

January inflation

Flash inflation came in lower than expected: CPI at 0.4%, CPIF at 2.0% and CPIF excluding energy (core) at 1.7% y/y. The surprise lies in core inflation, which is significantly lower than anticipated, while energy and mortgage rates appear to have developed in line with our expectations. Uncertainty in January is higher than in other months due to the change in weights. Statistics Sweden update these weights annually to better reflect the consumption patterns of Swedish households. For January, the weight effect is -0.1 for CPIF, which is historically normal and was expected. The updated weight breakdown will be published along with the details on 20 February.

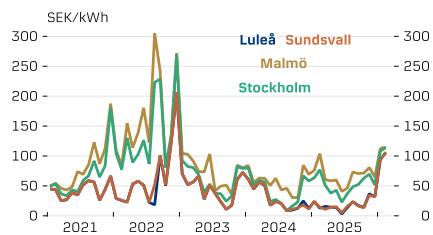
The low flash estimates, combined with Jansson's dovish comments in the *minutes*, have contributed to the ongoing downward pressure in Swedish rate levels, particularly in the front-end of the curve. That said, the remaining members of the board have mentioned a stronger economic activity in Sweden as a possible counterweight to the somewhat softer inflation outcome. The stronger than expected SEK has been another focus point in the minutes, adding downside pressure to the inflation trajectory. However, since the release of the minutes the SEK has weakened by roughly 1.5 percentage points against the EUR.

High energy prices

The flash reveals that energy prices were high in January, as expected considering the high electricity prices. There is still some uncertainty: spot prices have been high, there has been an increase in grid fees, but there is also a tax reduction on electricity.

Electricity prices have been high across all bidding areas, including the north, where prices are typically lower. One contributing factor to this is the cold and dry weather, as well as increased exports to Finland from Bidding Area 1 (Luleå), which is also likely to continue. So far in February, approximately 40% of Sweden's power has come from hydropower. Storage levels are at a good level; however, they have been depleting quickly due to the dry and cold weather, which seems likely to persist.

Electricity prices have been high across all bidding areas, which is unusual



Water reservoirs have been draining quickly

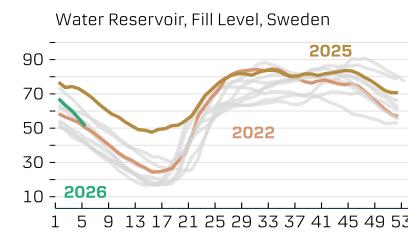


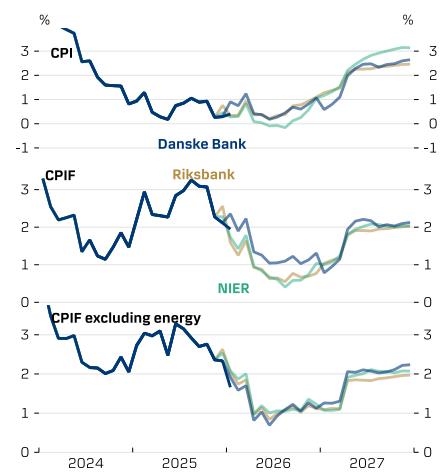
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	Flash	Danske	Riksbank	BBG	Prior
y/y					
CPI	0.40	0.90	0.34	0.60	0.30
CPIF	1.95	2.36	1.59	2.05	2.12
CPIF-XE	1.66	1.91	2.04	1.90	2.34
m/m					
CPI	0.07	0.57	-0.46	0.40	0.03
CPIF	0.22	0.62	-0.58	0.30	0.10
CPIF-XE	-0.50	-0.25	-0.41	-0.30	0.33

Source: Statistics Sweden, Bloomberg, Riksbank, Danske Bank and Macrobond.

Danske Bank, NIER and the Riksbank



Source: Danske Bank, NIER, the Riksbank and Macrobond.

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The exchange rate pass-through to inflation

The Swedish krona (SEK) has strengthened by 6% against the euro and 17% against the US dollar the last year, which raises the question of how the stronger SEK will impact inflation this year. A general rule of thumb is that a 10% change in the exchange rate results in a 0.5-percentage point change in inflation. During the period of high inflation, the Riksbank published an article examining this relationship, concluding that the exchange rate pass-through tends to be larger during periods of high inflation. It is also widely agreed that the pass-through effect is more pronounced when demand is strong.

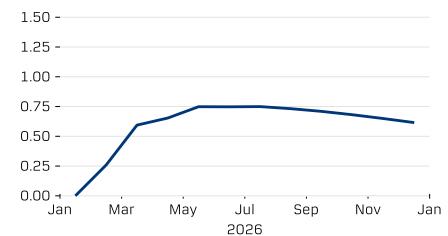
To test the exchange rate pass-through, we developed a simple structural VAR model that examines the impact of a 10% currency shock while controlling for growth in Sweden and KIX-weighted foreign inflation. The first model estimates the change in core inflation resulting from a 10% shock to the trade-weighted KIX index. The results show an effect of almost 0.75 percentage points, shown by the impulse response function, supporting the consensus view.

Since imported goods make up a larger share of inflation compared to domestic services, we also analysed the response of goods prices to a 10% shock in KIX. The findings indicate that a 10% shock to KIX leads to a 1.36-percentage point change in goods prices. To refine the analysis further, we examined the pass-through from the EUR to imported goods and services inflation, as well as total goods inflation. Estimates suggest that approximately 50% of total goods inflation is linked to imported goods.

It is worth noting that KIX weights account for both imports and exports, while inflation is primarily influenced by imports. Most Sweden's imports come from European countries (approximately 80%). While imports directly from the US constitute around 3%, a significant portion of imports from Asian countries is priced in USD. For goods prices, a 10% change in EUR/SEK results in a yearly change of 1.44 percentage points in the consumer price index for goods. As expected, the pass-through effect from USD is lower, reaching 1 percentage point. Additionally, the model indicates that the pass-through from the euro is slightly faster than that from the dollar, 3-5 months compared to 6 months for the dollar.

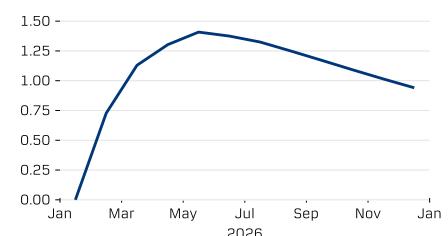
This suggests that the pass-through from the strengthening of the SEK continues to influence inflation and is likely to persist throughout the year. However, the impact remains limited.

Impulse response of Core Inflation to a 10% shock in the KIX index



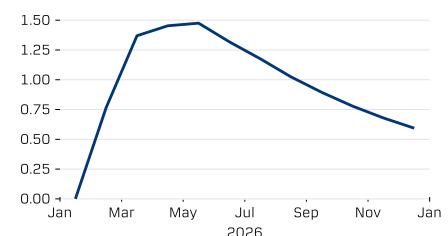
Source: Danske Bank and Macrobond

Impulse response of Goods Inflation to a 10% shock in the KIX index



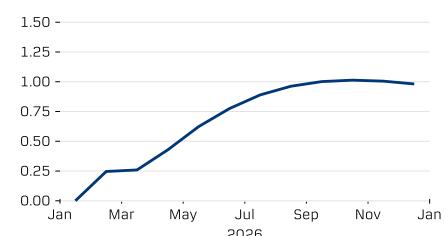
Source: Danske Bank and Macrobond

Impulse response of Goods Inflation to a 10% shock in the EUR



Source: Danske Bank and Macrobond

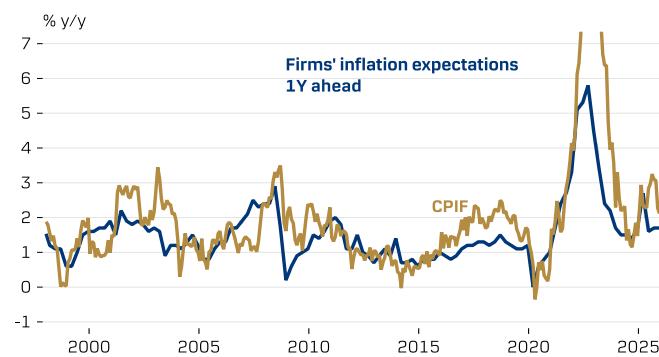
Impulse response of Goods Inflation to a 10% shock in the USA



Source: Danske Bank and Macrobond

Charts

Firms' inflation expectations and CPIF



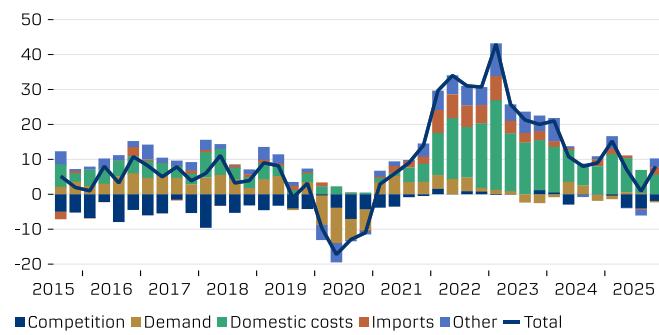
Source: Statistics Sweden, NIER, Danske Bank and Macrobond

Selling price expectations and CPIF



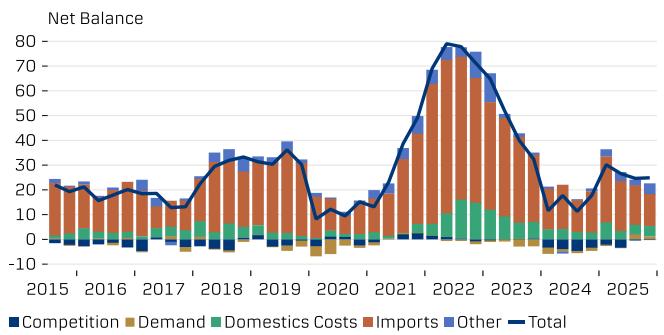
Source: Statistics Sweden, NIER, Danske Bank and Macrobond

Driving forces behind price changes among companies in the service sectors



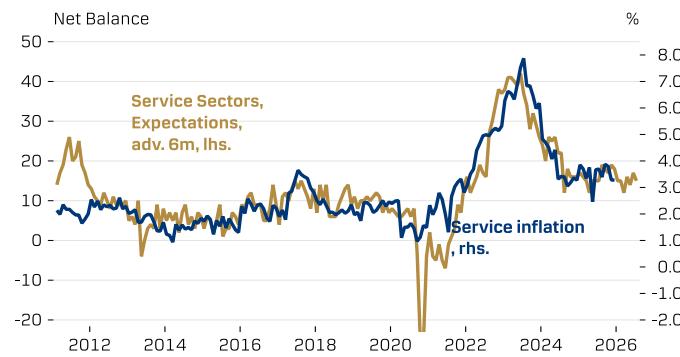
Source: NIER, Danske Bank and Macrobond

Reasons for Latest Price Changes Among Companies in the Trade Sector



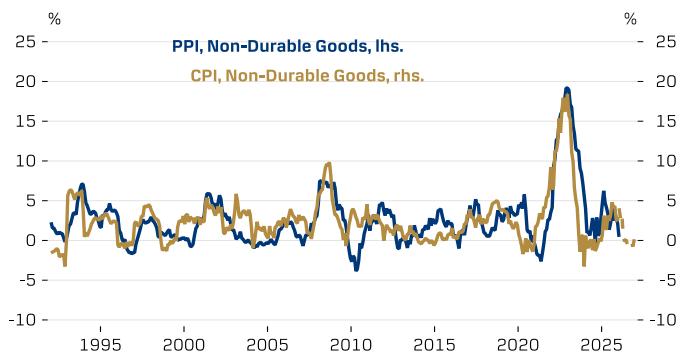
Source: NIER, Danske Bank and Macrobond

Service inflation vs Service Sectors Price Expectations



Source: Statistics Sweden, NIER, Danske Bank and Macrobond

Non-Durable Goods, CPI vs PPI



Source: Statistics Sweden, Danske Bank and Macrobond

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Ad hoc

Date of first publication

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