

## Economics

27 January 2011 | 5 pages

### Sweden

#### PPI Shows Highest Monthly Rise in 15 Years, and Confidence Readings Rise Further

- Swedish producer prices rose by 2.2% in December, presenting its highest M/M rise in 15 years. Behind this strong number were price increases of 2.4% in the domestic market, 1.8% in the export market and 2.6% in imported prices. As we expected, the higher electricity prices played a big part in these numbers both domestically as well as from abroad. The November to December depreciation of the SEK also, according to Statistics Sweden, explained some of the increase in imported prices. Over the past 12 months producer prices rose by 4.3%, also significantly higher than expected, but most noteworthy was the 5.8% Y/Y increase in domestic markets.
- Even if today's numbers were strong, 2010 average growth in producer prices was not exceptionally high at 1.09% Y/Y, compared to the ten-year average of 2.36%. It should however be noted that the price increase in non durable consumer goods showed a decent 3.2% Y/Y increase on the domestic and imported markets in December and, judging by the historical correlation between producer prices of non durable consumer goods and consumer prices, inflation should continue to rise this year.

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**Ann O'Kelly**

+44-20-7986-3297

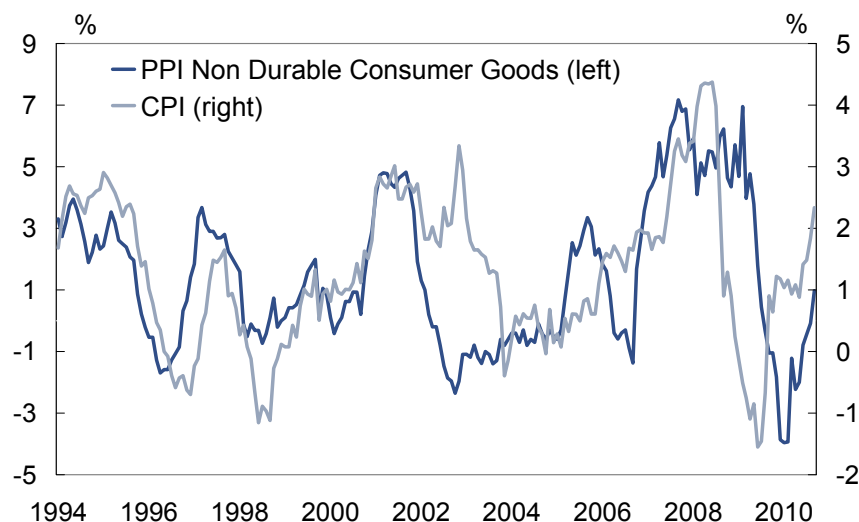
ann.okelly@citi.com

*With thanks to*

Frida Sellberg

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**Figure 1. Sweden – Change in PPI against CPI (Pct. Yr.-Yr.), 2001 - 2010**



Sources: EcoWin and Citi Investment Research and Analysis

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Sweden: Manufacturing Confidence at Highest Reading Ever

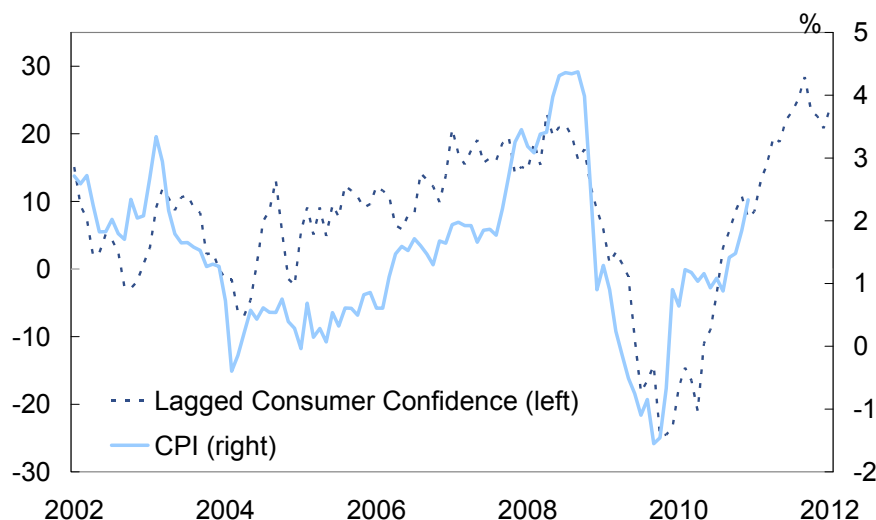
Quarterly manufacturing confidence showed its highest reading ever for 4Q 2010, and it seems that all sectors contributed to this remarkable number<sup>1</sup>. The most noteworthy increase was seen in construction sector confidence, even though the sector has been heavily affected by the extreme winter whether this year.

Household confidence for January was also released today and it seems that households now have, compared to last month, an even more positive outlook both for the Swedish economy as well as for their own economic situation. Also, household expectations on inflation 12 months ahead have increased slightly since December, and hence also their expectations of the one-year interest rate which has increased by 1 pp since last month.

The Swedish National Institute of Economic Research, Konjunkturinstitutet, which carries out the survey, concluded that underlying inflation, CPIF, is difficult to forecast and they think that the increase in global prices (especially commodity prices) might be offset by the stronger Swedish krona. All in all, they state that they now *"see somewhat stronger reasons for the Riksbank to hike rates during the 1H 2011, but the Central Bank should still move slowly."*

In conclusion today's strong numbers for Sweden do indicate that there is some upside risk in inflation. The strong growth in 2010 consumer confidence should, according to the correlation shown in figure 2, imply that inflation will continue to rise strongly this year. **Even though the Riksbank in the December Monetary Policy update forecasted inflation to be above the 2% target in 2011, today's numbers will probably put some upward pressure on their rate path. We keep to our expectations of the key policy rate at 2.50% by the end of this year, compared to the Riksbank's forecast of the rate reaching that level late in 3Q 2012.**

Figure 2. Sweden – Consumer Confidence Lagged 12 Months against CPI, 2002 - 2012



Sources: EcoWin and Citi Investment Research and Analysis

<sup>1</sup> Note that this series starts in 1996.

## Appendix A-1

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