

Figure B1. UND1X with and without energy and food items.  
Percentage 12-month change

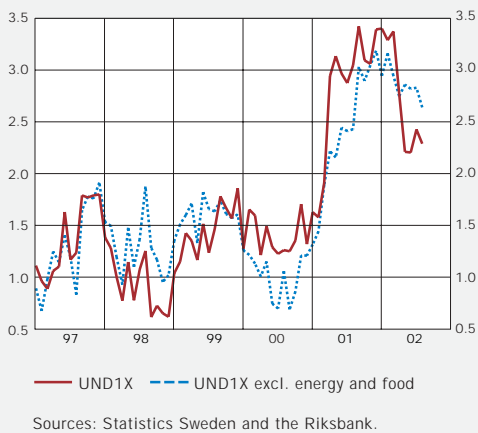


Figure B2. Price index for domestic supply (ITPI).  
Percentage 12-month change

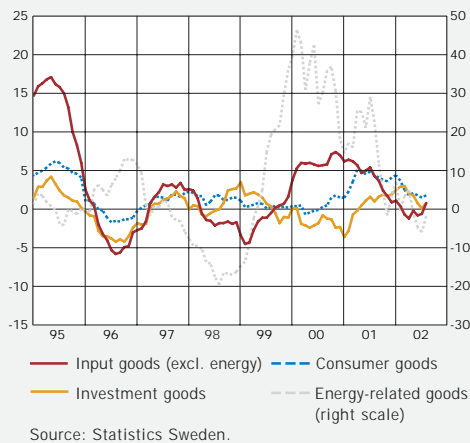
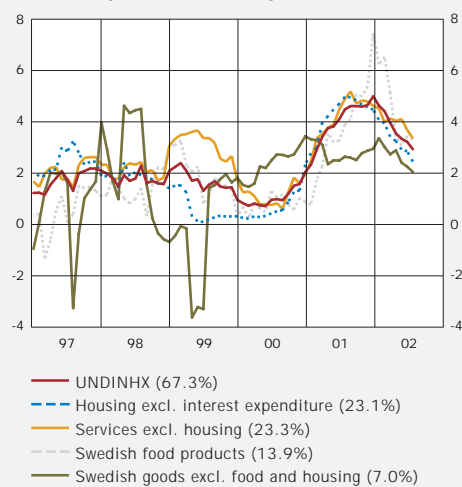


Figure B3. Underlying domestic inflation (UNDINHX).  
Percentage 12-month change



Note. UND1X weights in parentheses. The series exclude effects of changes in indirect taxes and subsidies.

Sources: Statistics Sweden and the Riksbank.

## RECENT INFLATION

During the summer inflation has fallen back from the high levels in the spring (Fig. 1 on p. 9). In August, inflation measured as the 12-month changes in the CPI and UND1X were 2.0 and 2.3 per cent, respectively. Since the time of the June Report both domestic and imported inflationary pressure have eased. The rate of price increases in the services sector is decreasing but still high, while for goods it is more subdued.

Compared with the assessment in the June Report, both domestic and imported inflation have been lower, with August figures of 2.9 and 0.9 per cent, respectively. The main explanation for the difference between forecast and outcome is unexpectedly low prices for food and clothing. UND1X excluding energy and food has also been somewhat weaker than foreseen, with an August rate of 2.6 per cent (Fig. B1).

However, the rate of UND1X inflation excluding energy and food followed a rising trend from mid 2000 up to this spring and is still high. The upward tendency in the past two years is due to such factors as a weak exchange rate, price increases for intermediate goods, rising unit labour costs and comparatively high resource utilisation in Sweden. The rate has tended to slacken as expected during the summer, partly due to more subdued consumption growth, a recovery in productivity and lower prices for certain intermediate goods on account of a stronger exchange rate combined with falling international prices (Fig. B2). The net figures in the latest business tendency survey from the National Institute of Economic Research point, moreover, to falling price pressure in many sectors. In recent months the upward movement in underlying inflation has also stabilised in the euro area.

The rate of domestic underlying inflation has risen rapidly in the past year. The price increases have been most marked in the services sector, while price pressure in the goods sector has been somewhat more subdued (Fig. B3). This is partly because it was mainly in the services sector that last year's weak productivity growth tended to push unit labour costs up but another explanation is that higher prices for input goods contributed to price increases for transport services and hotel and restaurant services, for example. Changes in wage costs affect prices for goods less than for services in that the labour input is lower for goods. In recent months, however, the rate of domestic inflation has slowed. This is probably a consequence of the lower

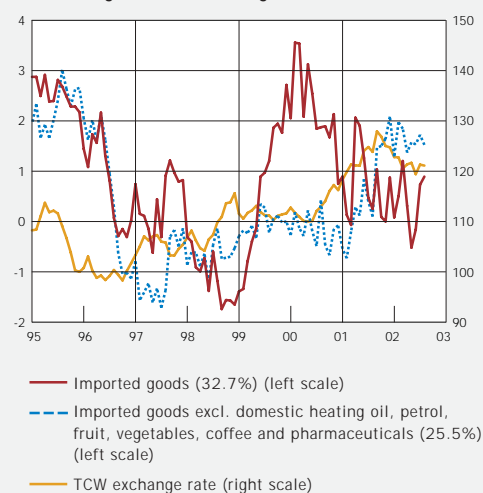
cost situation that results from an improvement in productivity growth and falling input prices. Still, insurance premiums and services prices that are set more administratively, for example municipal tariffs and car inspection, are continuing to rise at an accelerating rate.

The rate of price increases for imported, more manufactured goods has risen successively in the past year (Fig. B4). As price developments abroad have been subdued, this is probably a combined effect of the Swedish krona's earlier weakening and comparatively favourable demand in Sweden. The rate of price increases for imported goods has stabilised recently, which may have to do with the krona's appreciation since the end of last year.

Underlying or core inflation is a concept without a clear-cut definition and is accordingly measured in various ways. One involves adjusting CPI inflation for items that are judged to have an effect on the rate of inflation that is only transitory. Another approach is to exclude or reduce the influence of groups of goods and services where prices fluctuate widely. Measurements of both these types show that while underlying inflation has increased in recent years, it has fallen back since the spring (Fig. B5).

All in all, the combination of better productivity growth, a lower rate of price increases for input goods and lower underlying inflationary pressure implies that since the time of the June Report the short-run prospects for inflation have improved.

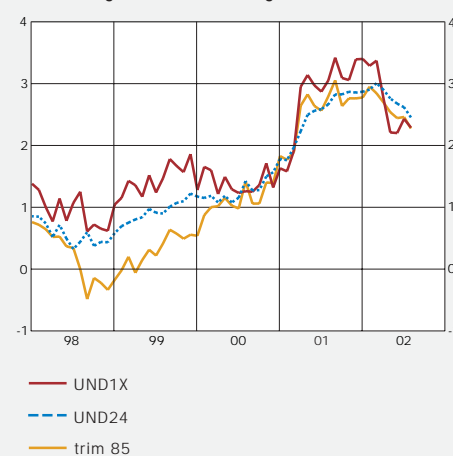
**Figure B4. Imported goods prices and TCW exchange rate.**  
Percentage 12-month change and index: 1997=100



Note. UND1X weights in parentheses. The series exclude effects of changes in indirect taxes and subsidies.

Sources: Statistics Sweden and the Riksbank.

**Figure B5. Alternative indicators of underlying inflation.**  
Percentage 12-month change



Note. The alternative measures are based on a decomposition of the CPI into 70 items: UND 24 is compiled with the item weights adjusted for the item's standard deviation from the total CPI over the most recent 24 months, while TRIM 85 excludes the most extreme price changes (7.5 per cent of each tail).

Sources: Statistics Sweden and the Riksbank.