

## RECENT INFLATION

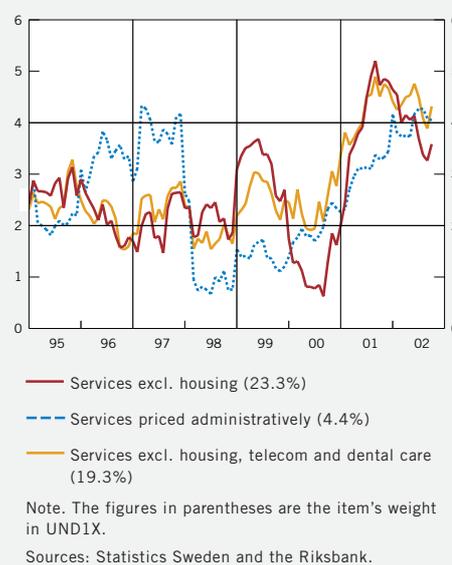
Inflation in Sweden was fairly stable for some years up to the spring of 2001. The rate then moved up to a peak in September 2001, when the 12-month changes in UND1X and the CPI were 3.4 and 3.2 per cent, respectively. On a number of occasions the Riksbank has come to the conclusion that a large part of this increase could be attributed to transitory factors. This assessment was confirmed in that the rate of inflation subsided rapidly last spring and inflation expectations fell back. In October the 12-month changes in CPI and UND1X were 2.5 and 2.4 per cent, respectively (Fig. 1 on p. 10).

Behind these broad price indexes there are clear differences in the development of prices for different items, for instance between goods and services. The rate of consumer price increases for goods has gone on falling since the middle of last year. The price rise for services has slowed during the past year but is still comparatively high (Fig. B1). This is also reflected in the path of domestic underlying inflation, UNDINHIX, which has a large proportion of services and had an October rate of 2.9 per cent, relative to the path for imported underlying inflation, UNDIMPX, which mostly consists of goods and rose 1.3 per cent in October (Fig. 1, p. 10).

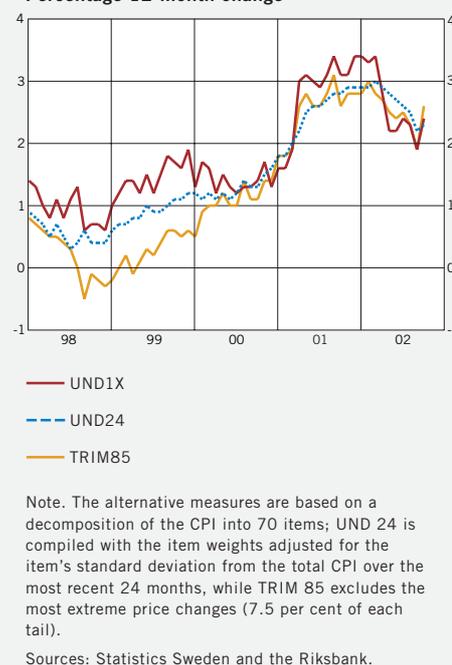
The path of inflation in the longer run is usually studied in terms of underlying or core inflation, that is, inflation excluding disturbances that are occasional and transitory. However, underlying inflation has not been clearly defined and is accordingly measured in various ways. A comparatively simple approach involves excluding some predetermined components from the CPI. UND1X is an example where the excluded items are interest payments and changes in indirect taxes and subsidies. A more complicated procedure uses statistical methods to identify the groups of goods and services for which prices fluctuate widely and either exclude them or reduce their effect on the measure of inflation. Two measures of this type are included in Fig. B2.

These alternative measures show that underlying inflation has fallen since last year but is higher than it was 2–3 years ago. Put differently, the trend rate of inflation seems to have risen and stabilised at a somewhat higher level than before the spring of 2001. The upward shift partly has to do with the increased resource utilisation in recent years (Fig. 25 on p. 33). The Swedish economy still had a considerable unutilised production potential 4–5 years ago that tended to dampen the rate of price increases.

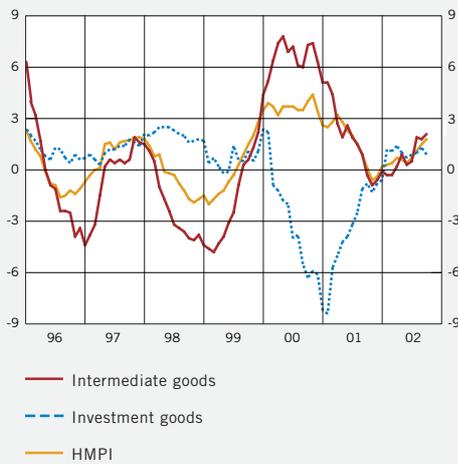
**Figure B1. Services prices.**  
Percentage 12-month change



**Figure B2. Alternative indicators of underlying inflation.**  
Percentage 12-month change



**Figure B3. Home market price index (HMPI) and two components.**  
Percentage 12-month change



Source: Statistics Sweden.

With comparatively high resource utilisation, the situation today is different. Another explanation for the upward shift seems to be the krona's depreciation. The TCW exchange rate weakened markedly from mid 2000 to the autumn of 2001. The krona has strengthened recently, however, and this has subdued imported inflation (Fig. 1, p. 10).

Further indications of price pressure in the economy can be derived from price movements in earlier stages of production, for example producer prices. Here, however, there are large differences between different aggregates. For home market prices, HMPI, the 12-month change has moved up during this year from just under zero to about 1.8 per cent, which in turn mirrors prices for intermediate and investment goods (Fig. B3). The comparatively high resource utilisation is a reason for this. Import prices, IMPI, however, are still subdued, with change figures that have been negative for some months. This is partly because the krona has appreciated recently but it also has to do with the low capacity utilisation in the production of goods abroad.

To sum up, inflationary pressure on consumer prices has eased during the past year. A substantial part of the fall is due to the more transitory nature of last year's increase in inflation. But another explanation is that resource utilisation has stabilised or tended to ease, while inflation expectations have fallen back with the downward shift in actual inflation. Another important factor has been the low capacity utilisation in the production of goods abroad, combined with the appreciation of the krona.

In the near future, some increase is foreseen above all in domestic underlying inflation. This is due to higher electricity prices on account of the dry summer and the increases that have been announced to various insurance premiums, partly due to the recent equity market fall.