Recent developments in inflation

Since the previous Inflation Report both UND1X and CPI inflation have been marginally higher than expected. In October, UND1X inflation stood at 1.3 per cent and CPI inflation at 0.8 per cent, compared with the forecasts of 1.1 per cent and 0.7 per cent, respectively. The deviation is essentially attributable to the unexpectedly high oil price.

Continued low domestic inflation but rising imported inflation

Inflation has picked up somewhat since the beginning of the year, due in some measure to the rise in the oil price (see Figure B2). The inflation rate is still low, however. In October, UND1X inflation was 1.3 per cent and CPI inflation was 0.8 per cent.

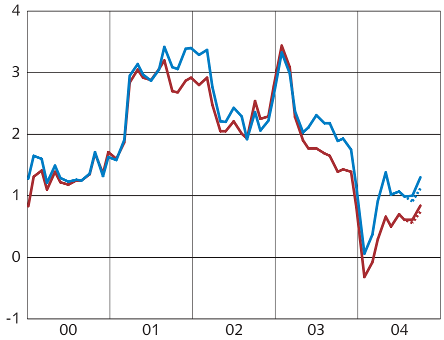
Domestic inflationary pressures have remained weak, and were on the wane during a large part of 2004 (see Figure B3). The rate of domestic price increases has been held back because — despite GDP growth of just over 3 per cent during the first half of this year — there are still idle resources in the economy. High productivity growth has also resulted in low cost increases for firms. Imported inflation has increased from a low level during the autumn, mainly as a result of the continued rise in the oil price. In October, consumer price inflation for oil products stood at 12 per cent. This provided a contribution of 0.6 percentage points to the underlying inflation rate.

Somewhat higher inflation than expected

Inflation has risen somewhat more than forecast in October. Domestic inflation and imported inflation excluding oil products have largely developed in line with the previous assessment. The oil price has risen more than anticipated, however. Consequently, imported inflation including oil products has increased somewhat sharper than expected.

Looking back over a slightly longer period, domestic inflation has also developed roughly as expected; compared with the assessment at the beginning of 2004 price increases for domestically produced consumer goods were higher during the spring and summer. Domestic inflation has been low even though GDP growth so far this year has been more vigorous than forecast at the beginning of the year. At the same time, though, productivity growth has also been more robust than expected, prompting a downward revision of the forecast for firms' costs. The unexpectedly high GDP growth has therefore not caused inflationary pressures to

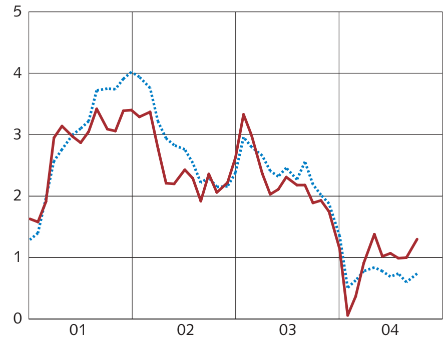
Figure B1. UND1X and CPI: forecasts in previous Inflation Report and outcomes.
Annual percentage change



Note. The broken lines represent the Riksbank's forecasts in the previous Inflation Report.

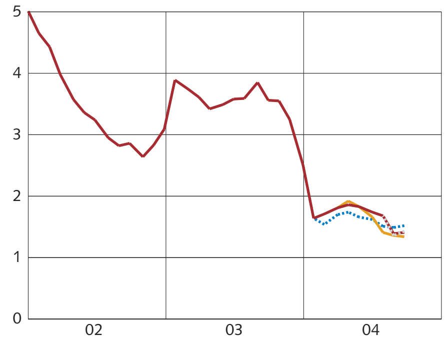
Sources: Statistics Sweden and the Riksbank.

Figure B2. UND1X and UND1X excluding oil products.
Annual percentage change



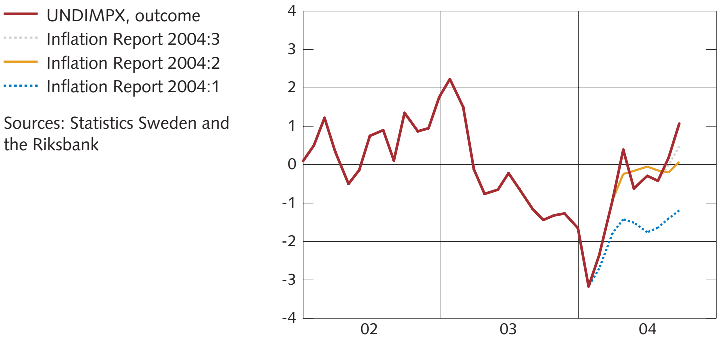
Sources: Statistics Sweden and the Riksbank.

Figure B3. UNDINHX: forecasts in previous Inflation Reports and outcome.
Annual percentage change



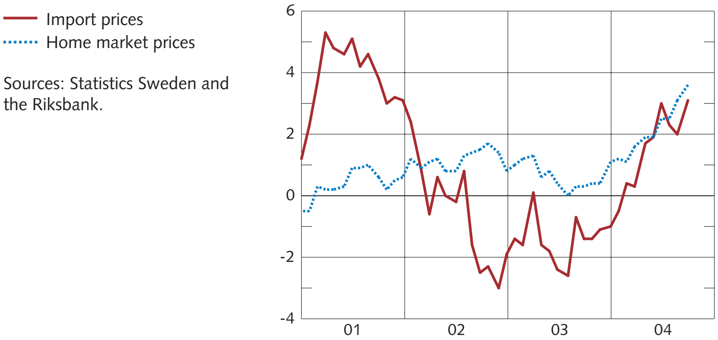
Sources: Statistics Sweden and the Riksbank.

Figure B4. UNDIMPX: forecasts in previous Inflation Reports and outcome.
Annual percentage change



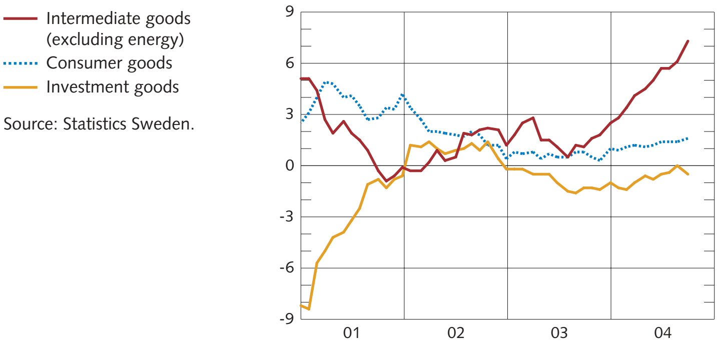
Sources: Statistics Sweden and the Riksbank

Figure B5. Producer prices: imports and the home market.
Annual percentage change



Sources: Statistics Sweden and the Riksbank.

Figure B6. Producer prices for the Swedish home market: different groups of goods.
Annual percentage change



Source: Statistics Sweden.

mount to the same extent. Imported inflation, however, has risen faster than anticipated in early 2004. The unexpected, sharp increase in oil prices has been the key contributory factor in this longer-term perspective as well.

Higher Swedish producer price inflation

Swedish producer prices – both for imported goods and for goods produced for the Swedish market – have, like global prices, increased in the past year. The quickening rate of increase for import prices is largely a direct result of the rising price inflation in the world market.

The rate of price increases for domestically produced goods for the Swedish market (the home market) has risen for the past year or so (see Figure B5). Prices of intermediate goods in particular have risen comparatively sharply (see Figure B6). Prices of investment goods have been unchanged in the past year, which in all likelihood partly reflects the currently weak investment demand.

Producer price inflation for consumer goods has also been subdued. Price developments for food have been especially weak. Excluding these, consumer goods prices have risen at roughly the same pace as intermediate goods (see Figure B7), i.e. by over 5 per cent in the past year. Tougher competition in the Swedish food market in recent years has probably contributed to the low producer price inflation for food, but also to the low increases in consumer prices.

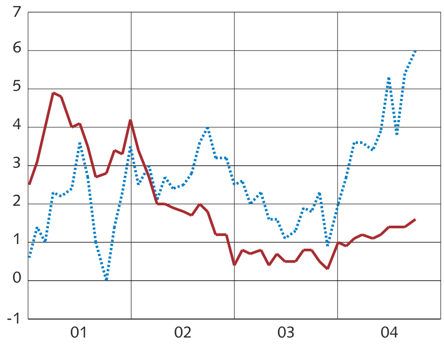
However, the high rate of producer price inflation for the category "other consumer goods" has fed through very little to consumer prices (see Figure B8). There are several possible reasons that developments in producer prices of consumer goods for the home market deviate from the developments in consumer prices. One is that the composition of goods and the goods' respective weights differ between the producer price index and the consumer price index. Another is that the profit margins of retailers vary over time. The fact that consumer price inflation for goods has not risen to the same extent as producer prices of consumer goods in the past year might indicate that retailers have decided to cut their profit margins. It might also point to higher productivity in the retail sector.

Figure B8 shows that low increases in goods prices have contributed to the low domestic inflation in the past year. Price inflation for services has continued to outpace the total domestic inflation rate.

Slight rise in underlying inflation

In order to analyse developments in inflation excluding various temporary effects, the Riksbank studies different measures of underlying inflation. Underlying inflation is not an unambiguously defined concept, though, and can accordingly be measured in different ways. One common method for distinguishing the trend, or cyclical, component of inflation is to exclude from the CPI some components that are deemed to be temporary in nature or that are a direct effect of economic policy decisions. UND1X is arrived at by excluding from the CPI households' mortgage interest expenditure and the direct effects of changes in indirect taxes and subsidies. Another way of measuring underlying inflation is to use statistical methods to exclude or lessen the significance of groups of goods and services whose prices have previously exhibited sharp fluctuations. Figure B9 shows different measures of underlying inflation. There has been a slight rise in the underlying inflation rate during the autumn. However, the level of underlying inflation is still low for all measures.

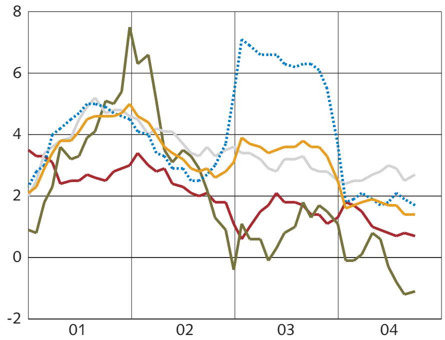
Figure B7. Producer prices for consumer goods in the home market.
Annual percentage change



Consumer goods, total
Consumer goods (excluding food)

Sources: Statistics Sweden and the Riksbank.

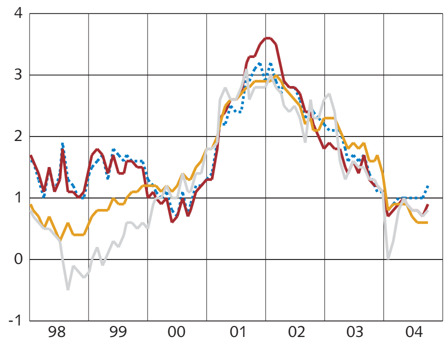
Figure B8. UNDINHX: total and different subgroups.
Annual percentage change



Swedish goods excluding food (6.4%)
Housing excluding interest (21.5%)
Services excluding housing (23.2%)
UNDINHX (63.5%)
Swedish food (12.4%)

Sources: Statistics Sweden and the Riksbank.

Figure B9. Different measures of underlying inflation.
Annual percentage change



UND1X excluding energy
UND1X excluding food and energy
UND24
trim85

Note: The alternative measures are calculated on the basis of the CPI divided into approximately 70 different subgroups. UND24 is weighted together using weights adjusted for the historical standard deviation for the deviation between the annual rate of increase in the total CPI and the respective subgroup over the past 24 months. In trim85 the 7.5 per cent most positive and negative yearly price changes each month have been excluded.

Sources: Statistics Sweden and the Riksbank.