

PRICES IN THE PAST YEAR AND THE RIKSBANKS FORECASTS

Table B1. Forecast and registered 12-month price changes in August 1999.

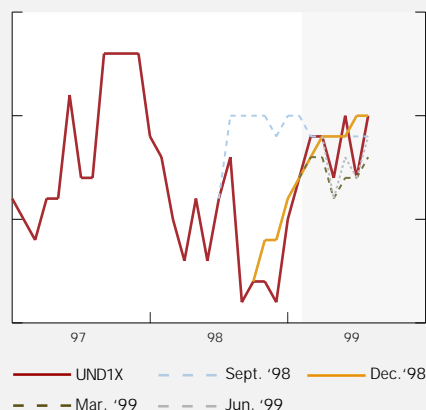
Percentage-point contributions to CPI
and per cent

	IR 1998:3	IR 1998:4	IR 1999:1	IR 1999:2	Outturn
Imp. goods	0.0	-0.1	-0.3	-0.2	-0.2
Ind. taxes	-0.6	-0.5	-0.4	-0.5	-0.5
Inter. exp.	-0.3	-0.5	-0.6	-0.7	-0.7
Dom. prices	1.3	1.2	1.2	1.2	1.1
CPI	0.4	0.1	-0.1	-0.2	-0.2
UND1X	1.5	1.1	1.0	1.0	1.1
UNDINHX	2.0	1.8	1.9	1.8	1.8

Note. The Riksbank's Inflation Report (IR) forecasts consistently start from the assumption of an unchanged repo rate in the forecast period.

Sources: Statistics Sweden and the Riksbank.

Figure B1. Underlying inflation: outturn and forecasts.
Percentage 12-month rate



Note. The outturn for underlying inflation, measured as UND1X, is shown together with the main scenario in four consecutive Inflation Reports.

Sources: Statistics Sweden and the Riksbank.

Monetary policy is targeted at keeping CPI inflation at an annual rate of 2 per cent with a tolerance interval of ± 1 percentage point. It normally takes about twelve to twenty-four months for the full effect of monetary policy to show up in inflation. This means that policy has to be based on a forecast of inflation's path in the coming one to two years. The actual development of prices is considered here in relation to the Riksbank's forecasts in the past twelve months, that is, from September 1998 to August 1999.

Isolated 12-month change figures (the change in the price level between the same month in two consecutive years) can be greatly affected by transitory factors. Shifts in the normal seasonal pattern of prices, for instance, may produce considerable changes that then disappear after a couple of months. It is therefore usually more appropriate to assess price developments in a somewhat longer, for example annual, perspective.

In the twelve months to August 1999 the level of consumer prices was about 0.2 per cent lower than in the corresponding period a year earlier (September 1997 to August 1998). Underlying inflation, measured as UND1X, rose, however, by almost 1.1 per cent. The difference came from decreased indirect taxes and a steep fall in house mortgage interest expenditure, which dampened CPI inflation (Table B1).

In the Riksbank's assessment in September 1998, the average price trend in the twelve months to August 1999 was overestimated for the CPI as well as UND1X (Table B1 and Fig. B1). The main reasons for this were that the downward effect of the Asian crisis on international prices was somewhat stronger than had been expected and that house mortgage interest expenditure was overestimated. The latter is primarily explained by the forecasting assumption of an unchanged repo rate. Since September 1998 the repo rate has been reduced by 1.2 percentage points.

In the three most recent Inflation Reports the main scenario's forecast changes in both the CPI and UND1X, as well as in UNDINHX, were in very good agreement with the outcome.