

## Recent developments in inflation

Since the March Inflation Report both UND1X and CPI inflation have been somewhat higher than the Riksbank's forecasts. In April the annual rates of UND1X and CPI inflation were 0.9 and 0.3 per cent, respectively, compared with the forecasts of 0.6 and 0.2 per cent. Imported inflation in particular has been higher than forecast while domestic prices have risen only marginally faster than expected.

### *Somewhat higher inflation than expected*

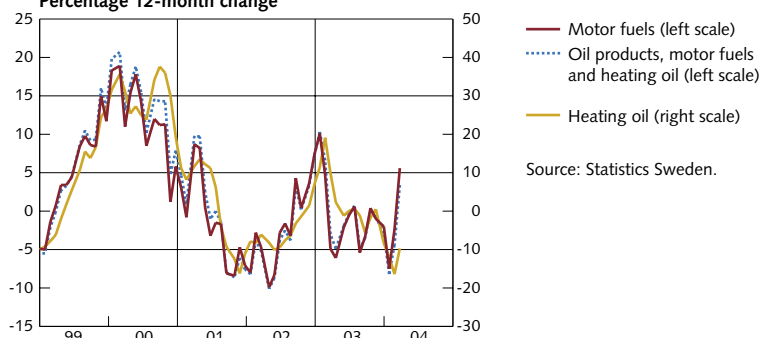
Imported inflation averaged just over a half percentage point higher than expected in March and April. The deviation from the forecast is partly attributable to an unexpectedly high price of oil, which has resulted in an increasingly fast rate of increase in the prices of petrol and heating oil (see Figure B8). Prices of other imported goods and services have also risen somewhat more than anticipated. The marginally higher domestic inflation is mainly a result of electricity prices having fallen slightly less than expected.

The rate of increase in the prices of services has remained at a comparatively high level, with especially prices of administratively priced services rising at a fast rate (see Figure B9). One significant reason for this is likely the strained finances of a number of local governments, which have prompted a rise in various charges such as those for refuse collection.

### *Low underlying inflation*

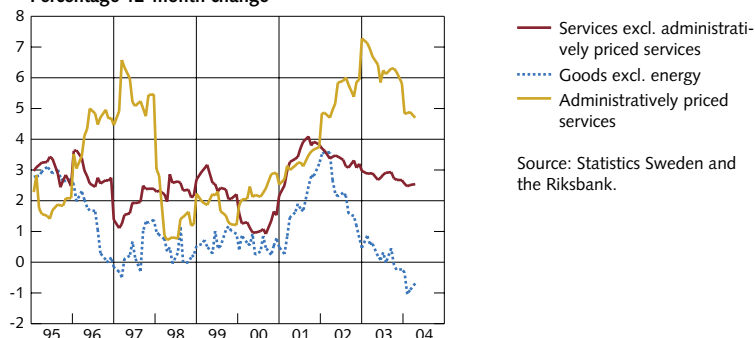
In order to analyse longer-term developments in inflation, the Riksbank studies measures of so-called underlying inflation. However, underlying inflation is not a clearly defined concept and can accordingly be measured in different ways. One common method is to exclude from CPI inflation certain components that are considered to be transitory in nature in order to attempt to distinguish the trend, or cyclical, component in inflation. UND1X is arrived at by excluding from CPI inflation households' mortgage interest

Figure B8. Oil products in the CPI. Percentage 12-month change



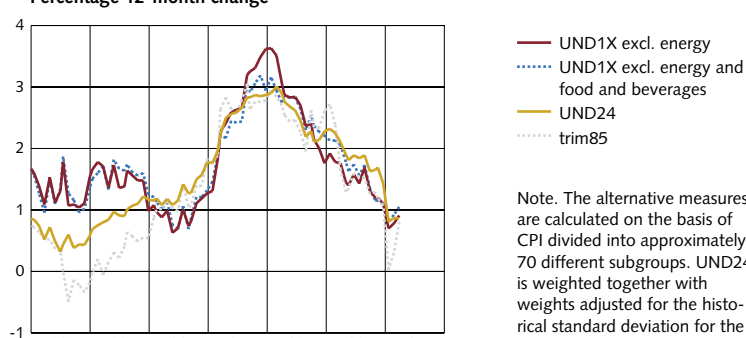
Source: Statistics Sweden.

Figure B9. Prices of goods and services. Percentage 12-month change



Source: Statistics Sweden and the Riksbank.

Figure B10. Different measures of underlying inflation. Percentage 12-month change



Note. The alternative measures are calculated on the basis of CPI divided into approximately 70 different subgroups. UND24 is weighted together with 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.

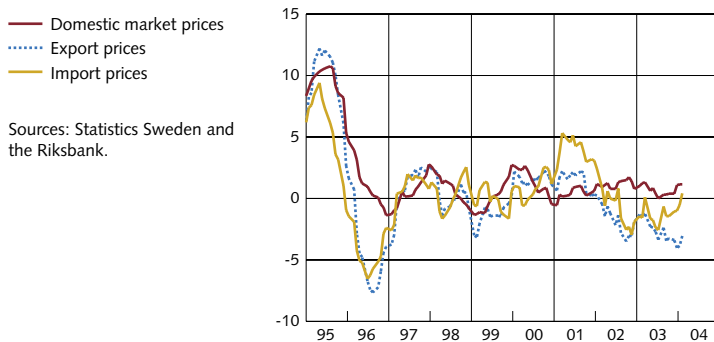
Sources: Statistics Sweden and the Riksbank.

expenditure and the direct effects of changes in indirect taxes and subsidies. Over the past year it has also been important to study inflation excluding the effects of the sharp fluctuations in energy prices. These have been associated to a high degree with supply shocks that have had a temporary impact on inflation. It is important to underline, however, that rises in energy prices sometimes have permanent effects on inflation

and that the consequences of different changes in energy prices (e.g. of electricity and oil) can vary. 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 B10 shows different measures of underlying inflation. A certain rise was noted in March and April according to all the different measures. However, the level of underlying inflation is still low for all measures.

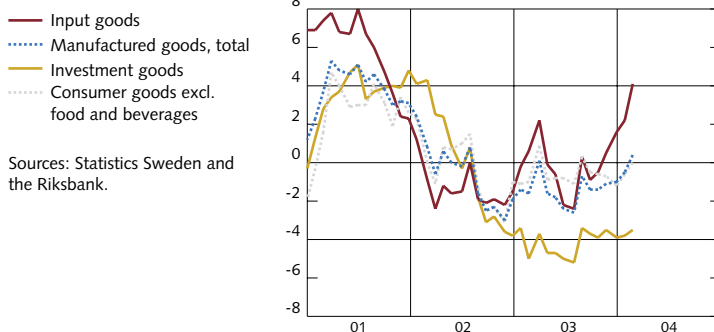
**Figure B11. Producer prices of manufactured goods: import prices, domestic market prices and export prices. Percentage 12-month change**



#### *Low producer price pressures*

In the past two years both import and export producer prices of manufactured goods have fallen steeply (see Figure B11). This drop was expected but proved sharper than forecast. During the first months of this year the decline in import prices of manufactured goods has slowed. In March these prices rose 0.4 per cent compared with the same month in 2003. Export prices have continued to fall, however. Some of the drop in both import and export prices last year can be attributed to the appreciation of the Swedish krona in 2003. Domestic market prices of manufactured goods have risen weakly in the past two years.

**Figure B12. Import prices of manufactured goods and their subgroups. Percentage 12-month change**



The import prices of manufactured goods can be divided into three subgroups: consumer goods excluding food and beverages, investment goods and input goods. The prices of all three subgroups dropped in 2003 (see Figure B12). The prices of investment goods fell sharpest and the rate of price increases for these is still clearly negative. The price decline can probably partly be explained by the weak investment in the world economy. On the other hand import prices of input goods have risen markedly in the recent period, with the annual rate of increase in March standing at 4.1 per cent. This rise was expected and is largely due to the sharp increase in world market prices of commodities in the past year (see Figure B13). Import prices of consumer goods have fallen somewhat in recent years. In March this year, however, the prices of these goods rose weakly.

**Figure B13. Developments in commodity prices in USD. Percentage 12-month change**

