

## MARKET AND ADMINISTRATIVE PRICES IN THE CPI

The rate of price increases is measured in these reports in various ways that involve excluding certain items from the CPI or breaking the index down into sub-components. A new subdivision is presented here.

The CPI includes a number of goods and services with prices that are not determined directly by market forces. Pricing in these cases is administrative in nature, often based on costs and not notably susceptible to changes in demand for consumer goods and services. A breakdown of the CPI has been made with this distinction as a starting point; Fig. 4 shows the contributions to CPI inflation that have come from market prices, administrative prices,<sup>2</sup> house mortgage interest costs and changes in indirect taxes and subsidies.

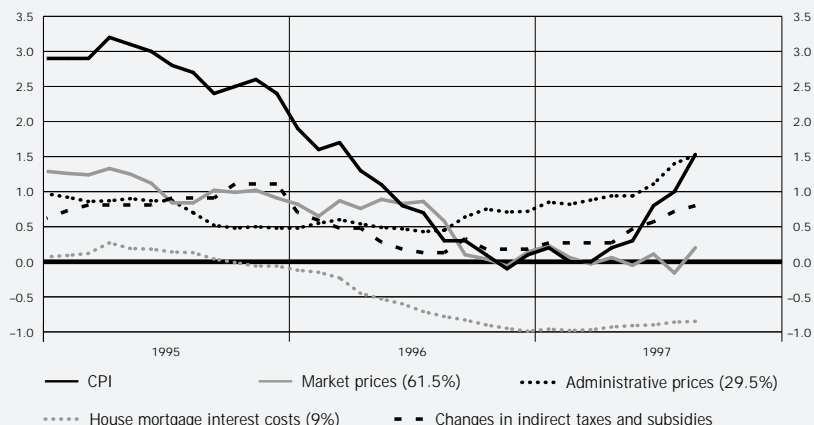
The retardation of inflation during 1996 came mainly from lower interest costs but also from smaller contributions from changes in indirect taxes and subsidies as well as lower increases in market prices. The average rate of inflation during 1996 was 0.8 per cent; contributions of 0.3 percentage points from changes in indirect taxes and subsidies, 0.5 from market prices and 0.6 from

administrative prices were offset by an effect of -0.6 percentage points from house mortgage interest costs. During 1997 inflation has turned upwards. The contribution from market prices has been negligible and the effect of interest costs has remained negative, whereas the combined impact of administrative prices, indirect taxes and subsidies has grown from around 1 percentage point at the turn of 1996 to over 2 percentage points in August 1997.

The interpretation suggested by these tendencies is that remaining effects of the krona's appreciation during 1996 and continued downward consumer price pressure have contributed to lower increases in market prices. The acceleration of the administrative price rise can be attributed both to increased pressure from costs (labour costs in particular) and to increased charges as a way of consolidating government finance; it is probably also a consequence of some shift in public financing from taxes to charges.

<sup>2</sup> Rent, gas and electricity, depreciation on owner-occupied houses, site leasehold fees, real estate taxes, water, sewage and garbage services, chimney cleaning, vehicle inspection, postal services, TV licences, lotteries, pools and lotto, medicine, health and medical products, medical and dental care are considered administrative prices. These items make up about half of the group that is used to measure domestically generated inflation; this group also includes certain goods and services with market prices where imports are not substantial.

**Figure 4.**  
CPI and contributions to its 12-month changes. Percentage points



Note. Administrative and market prices are shown excluding effects of changes in indirect taxes and subsidies. The figures in parentheses are the component's CPI weight in 1997. Sources: Statistics Sweden and the Riksbank.