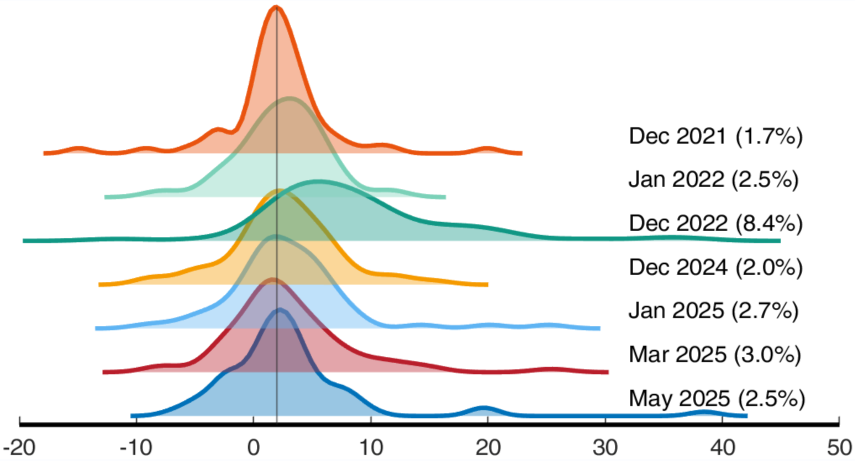
ANALYSIS - Few factors behind the rise in inflation

At the beginning of the year, inflation has risen and become higher than the Riksbank expected beforehand. The higher inflation rate is assessed to be transitory. The fact that it is mainly explained by technical factors and price increases in a few individual products indicates that it is not a broad price increase. Among the products that have increased significantly in price are primarily certain foodstuffs, the prices of which had previously risen substantially on the world market. None of these factors are deemed to be long-lasting and therefore inflation is expected to fall back early next year.

Inflation has been rising since the end of last year and, measured as the CPIF excluding energy, was close to 3 per cent at the beginning of the year. The price increases have now fallen back slightly but are expected to remain around 2.5 per cent for the rest of 2025, measured both as the CPIF and the CPIF excluding energy. The Riksbank's assessment is that the upturn is largely explained by temporary factors that do not affect inflationary pressures in the longer term.

Figure 17 shows the distribution of price developments, in annual percentage change, for 66 different sub-indices that together make up the CPIF excluding energy at various different times. When inflation picked up speed in January 2022, the entire distribution shifted to the right, meaning that it was price rises for many products that together were pushing up the rate of inflation. In January, we saw a similar upturn as in January 2022 for the rate of price increase for the CPIF excluding energy. However, now it was not being driven by a shift in the entire distribution but instead the rate of price increase for certain products had increased to a relatively large extent while remained stable for the greater part of them (the tail to the right has become longer). Following this, the central part of the distribution has, if anything, shifted downwards (left). The high rate of price increases in a few products has thus not broadened into generally higher price pressures among a greater number of product groups.

Figure 17. The dispersion of price increases in the CPIF excluding energy
Distribution of annual percentage change in product groups in the CPIF excluding energy



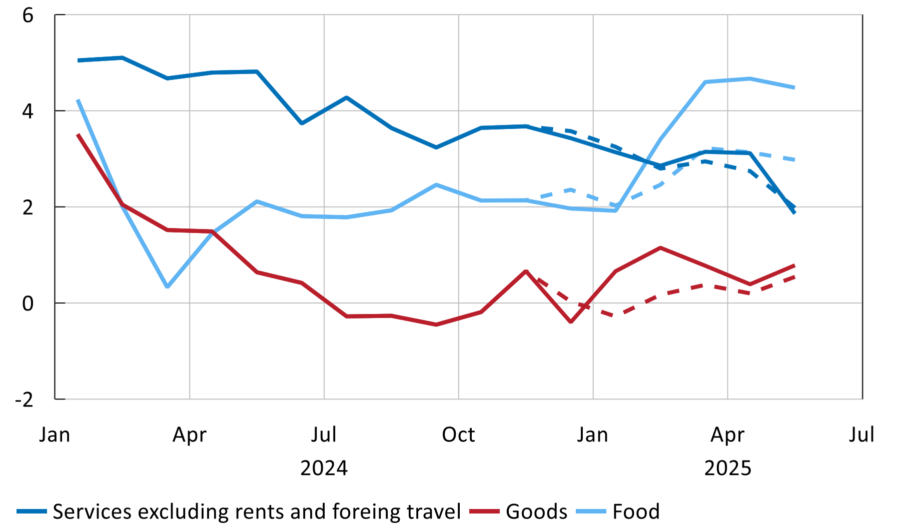
Note. The figures show the distribution of the annual percentage change in the 66 different sub-indices that make up the CPIF excluding energy. Vertical line marks 2 per cent.

Sources: Statistics Sweden and the Riksbank.

Another way of looking at this is to study developments in the major sub-aggregates that make up the CPIF excluding energy. Figure 18 shows the development of goods, foodstuffs and services excluding international travel and rents. Prices for travel are excluded as they are very volatile, and rents are excluded as their development is largely based on earlier cost increases. Here we compare with the forecast from the December 2024 Monetary Policy Report to capture developments throughout the year. It shows that total developments in both services and goods prices have been relatively well in line with the forecast, while food prices have been much higher than we expected at the time.

Figure 18. Developments in the sub-indices compared with the forecast in the December 2024 MPR

Annual percentage change



Note. The solid line refers to the outcome for each component and the dashed line refers to the forecast in the December 2024 Monetary Policy Report (MPR).

Sources: Statistics Sweden and the Riksbank.

In foodstuffs, large price increases for individual commodities such as coffee, chocolate and dairy products at the beginning of the year explain almost all of the forecast error. Global coffee and cocoa prices rose significantly in the second half of 2024, while compensation for milk to dairy farmers and global dairy prices also increased. The pass-through of these changes to retail prices was underestimated in the Riksbank's forecasts. Since the beginning of the year, however, things have changed. Global market prices for both coffee and cocoa have turned lower over the year, while compensation to dairy farmers has remained the same. At the same time, the prices of other key agricultural commodities have in general had a downward trend for some time. As a result, we expect consumer price increases to be moderate in the future and, if the trend continues, we can also expect some downward adjustments in the short term for certain products such as coffee.

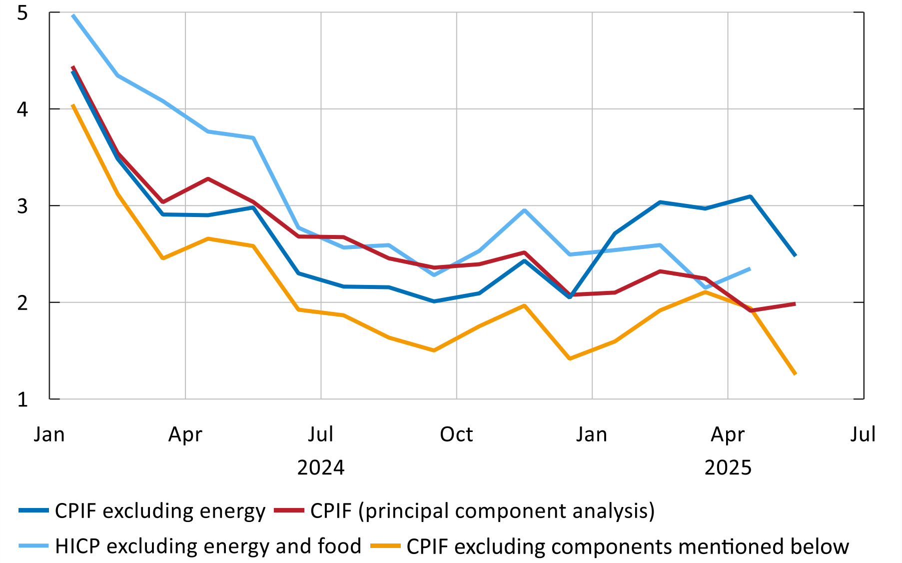
For services and goods prices, developments over the period have been well in line with the December 2024 forecast. However, some differences can be observed in developments in individual months, particularly for goods prices. This is related to the fact that month-on-month price changes have deviated relatively significantly from the period's historical pattern. In January, prices of goods generally tend to fall, mainly driven by large sales on clothes and shoes. This year, this decline was clearly smaller than it has been historically. This in turn was offset by lower price increases in March and April.

On top of this, there are continuing to come a lot of lagging effects from past price and interest-rate rises. Rents continued to rise rapidly this year and have been marginally higher than expected. Other more administratively set prices also continue to increase at a relatively fast rate. These prices are little affected by demand right now, and price increases for these products are expected to gradually slow down going forward. The assessment is supported by the fact that a relatively large number of rent agreements for 2026 have already been finalised and indicate lower rent increases next year.

As explained in the March Monetary Policy Report, the annual update of the weights in the CPI also contributed to developments. Weight changes dragged down inflation at the end of 2024 and made a positive contribution to the inflation rate in 2025. The effect of changing weights thus explains a relatively large part of the increase at the beginning of the year. One effect of the new weights is that inflation will also be higher during the summer as a result of the sharp increase in the weight placed on international travel compared with last year. Figure 19 shows measures of underlying inflation that reduce the impact of the above factors to varying degrees. In contrast to the CPIF excluding energy, they show stable, if slightly declining, rates of price increase since the end of last year.

Figure 19. Measures of underlying inflation

Annual percentage change



Note. The yellow line refers to the CPIF excluding energy, rents, administratively set prices, coffee and chocolate, expressed in fixed weights from 2024. In the series for fixed weights, the logged index levels with the base year of 2024 have been weighed together with the weights from the CPIF from 2024.

Sources: Eurostat, Statistics Sweden and the Riksbank.

Although the main scenario is that the pick-up in inflation is temporary, there are reasons for vigilance. Retail price plans remain at slightly high levels. There is also great uncertainty connected to the ongoing trade conflict and the escalating conflict in the Middle East that could potentially have major effects on inflation.