

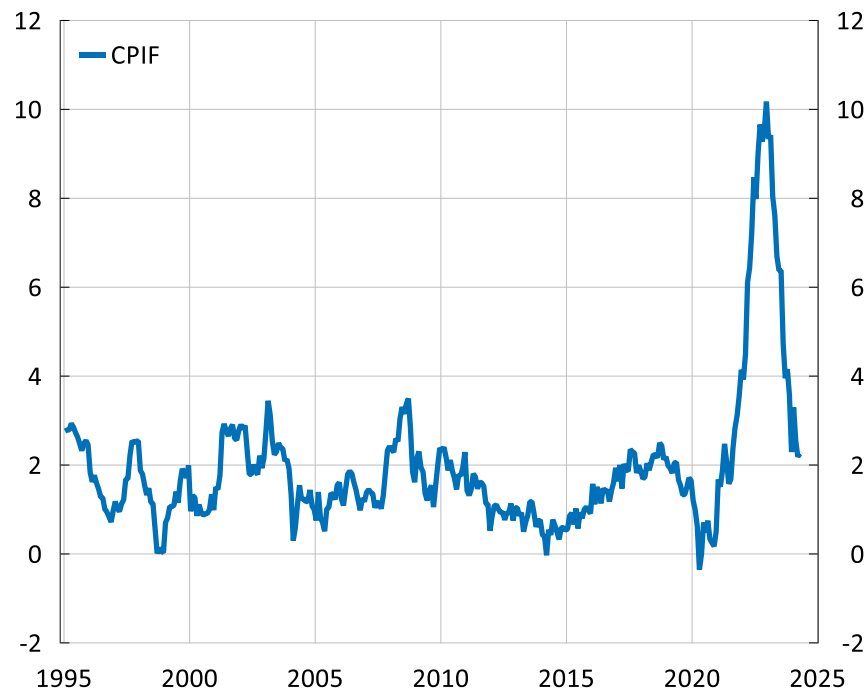
Reflections on the high inflation in recent years

Swedish Economic Association
20 May 2024

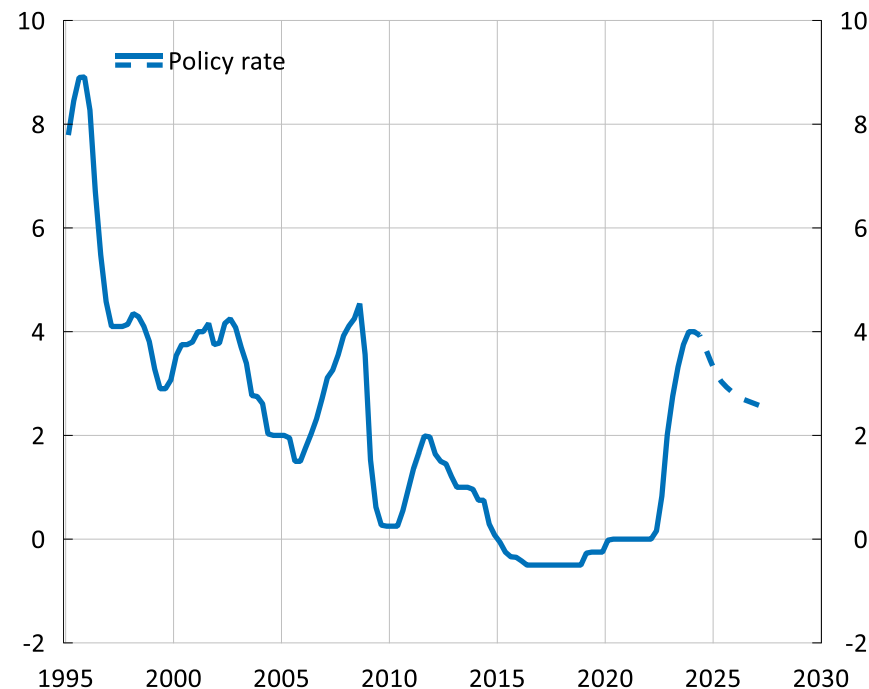
Erik Thedéen
Governor

First time inflation targeting regime has been tested by high inflation

Inflation



Policy rate



Note. Left: Annual percentage change. Right: Per cent. Forecast for the policy rate is from the Monetary Policy Report in March.

Sources: Statistics Sweden and the Riksbank

Very special circumstances – major supply disruptions...

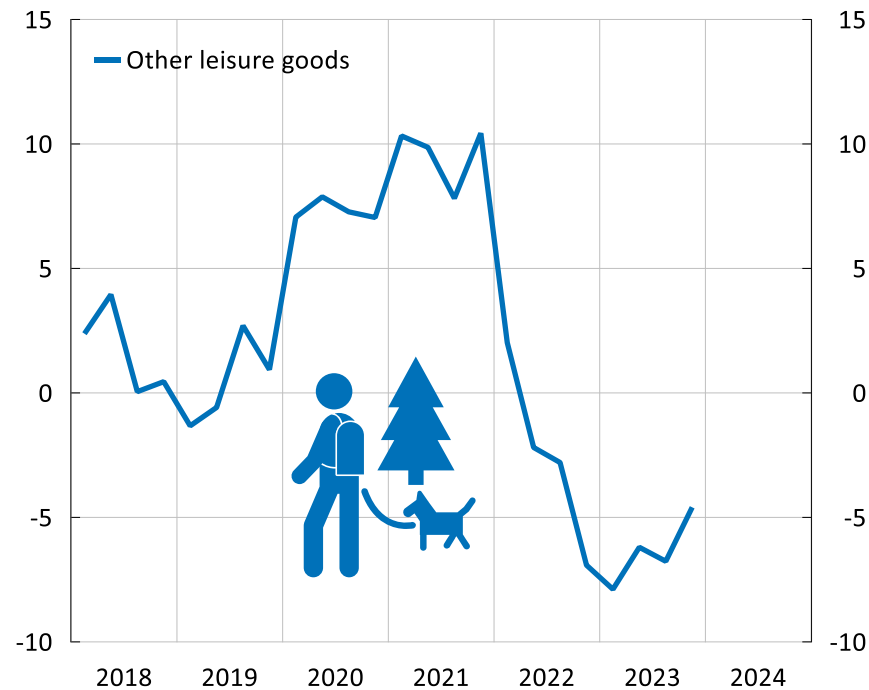


Note. CPIF as annual percentage change.

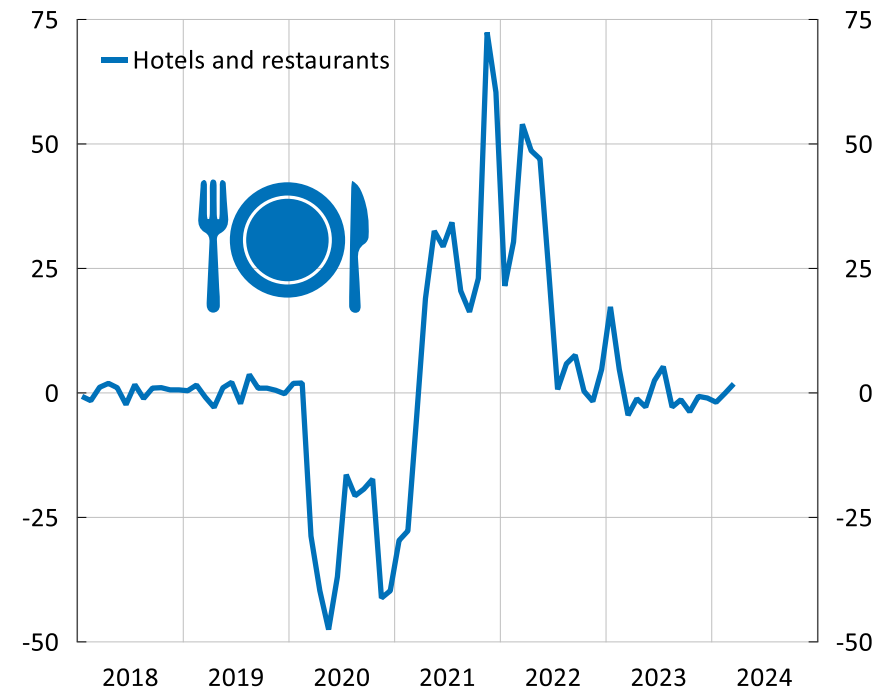
Sources: Statistics Sweden and the Riksbank

... combined with strong demand

Consumption of certain goods increased during the pandemic



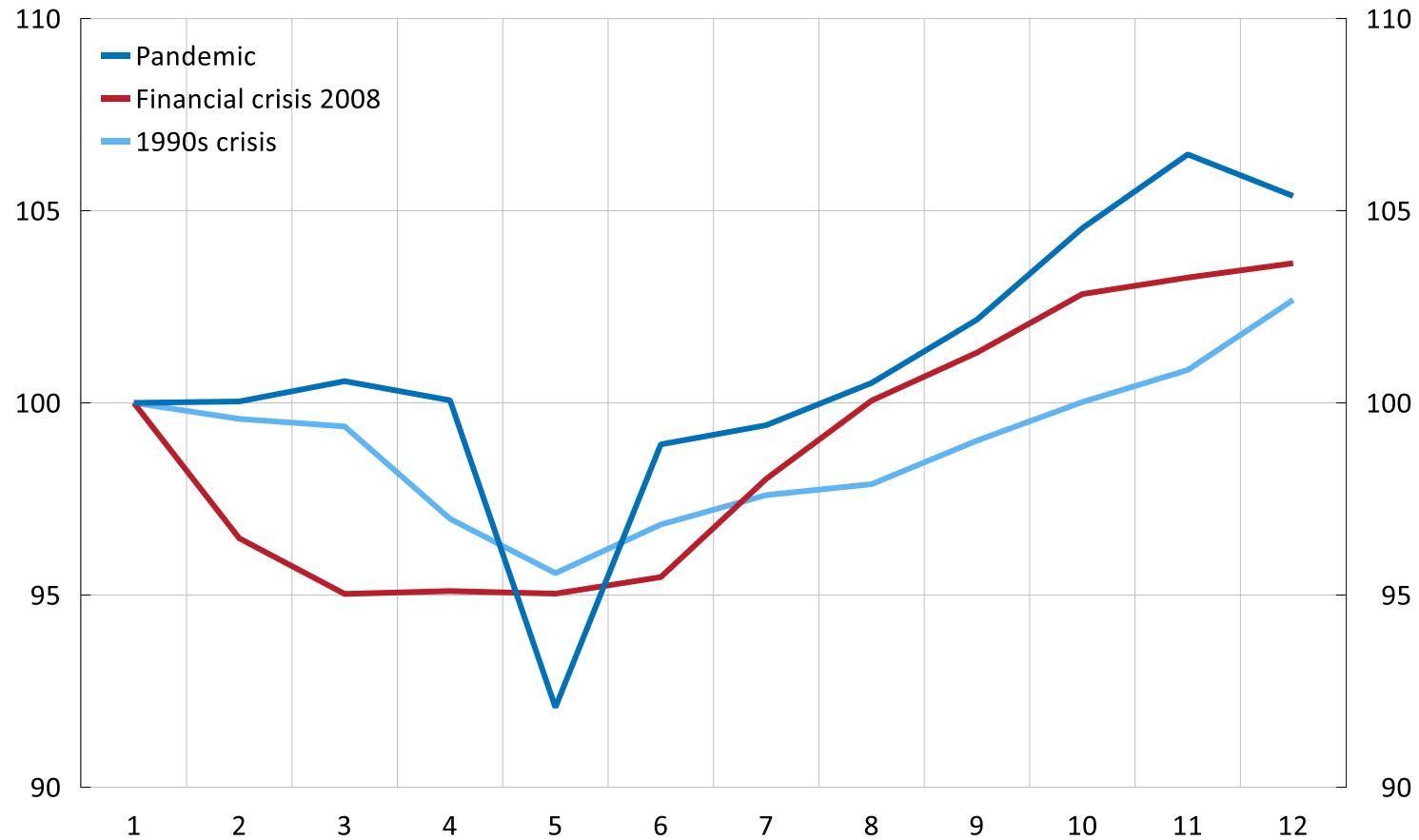
High demand for services after the pandemic



Note. Annual percentage change. Household consumption in constant prices, seasonally adjusted data.

Source: Statistics Sweden.

GDP recovered quickly after the pandemic

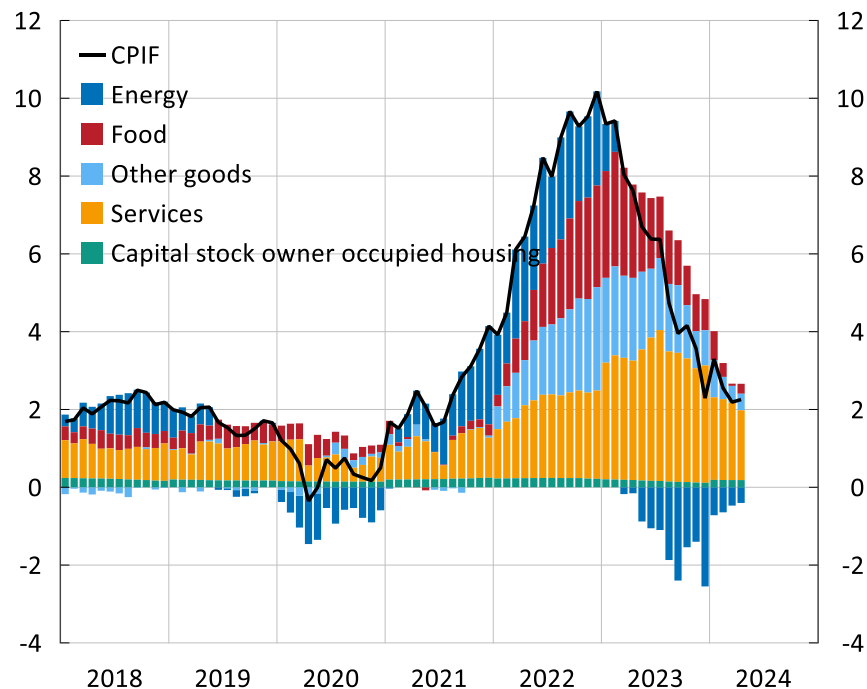


Note. Index=100 five quarters before the bottom of the cycle, the x-axis shows the number of quarters.

Source: Statistics Sweden.

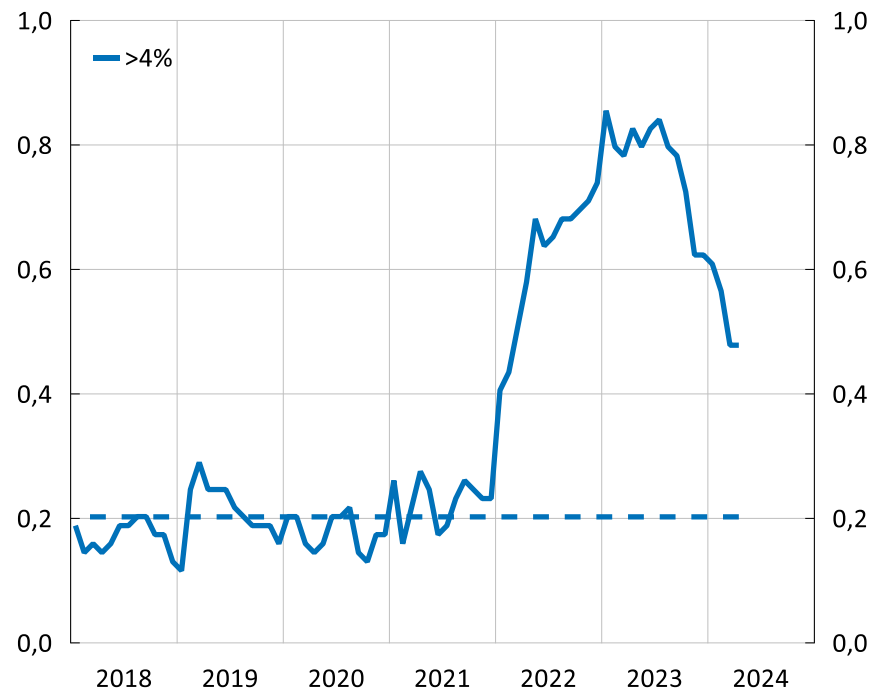
High price increases spread widely in the economy

All major CPIF sub-indices rose rapidly



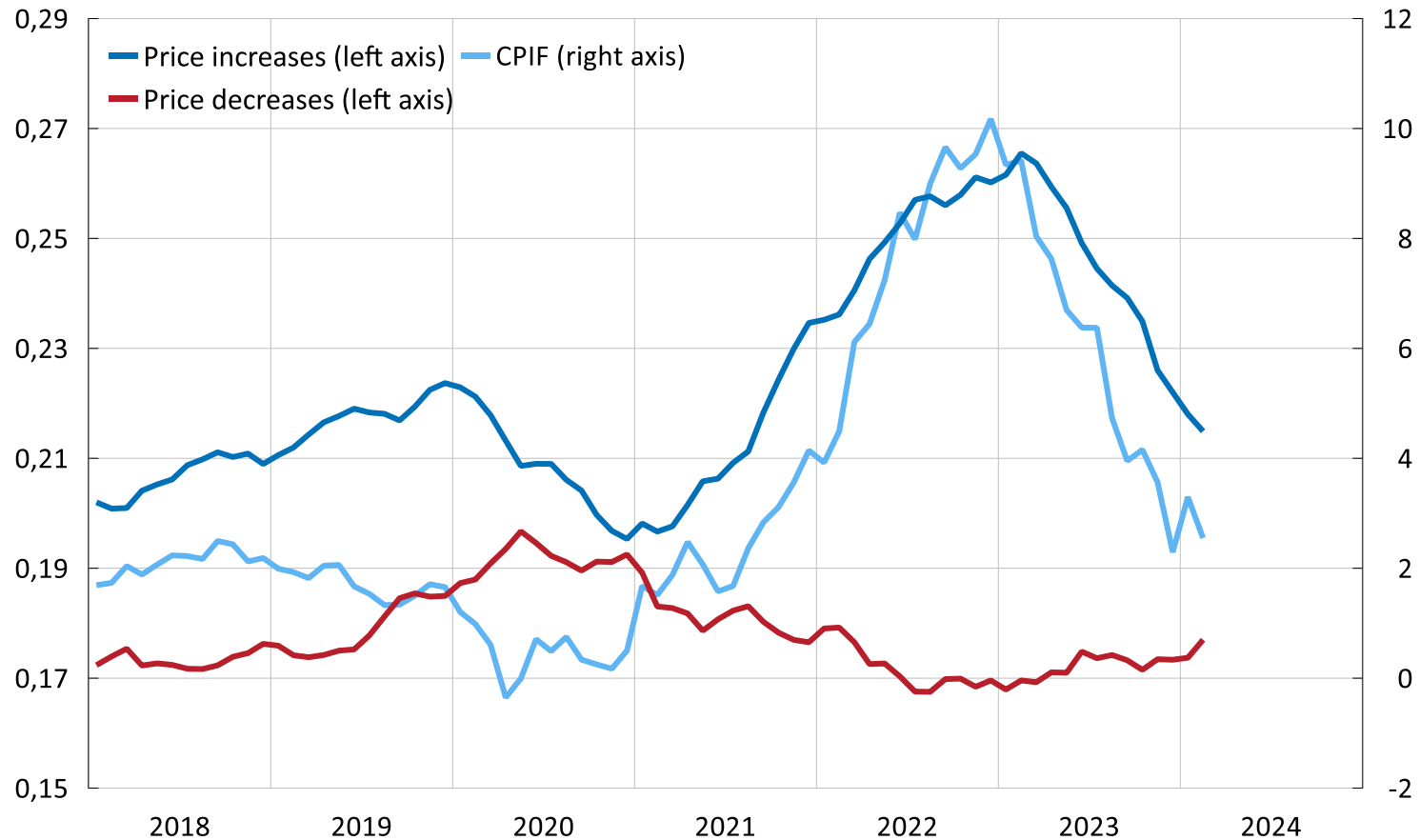
Note. Left: Annual percentage change and percentage points.
Right: Share.

Rapid increase in the share of product groups with price growth rates above 4 per cent



Sources: Statistics Sweden and the Riksbank

Upturn in inflation coincided with more frequent price increases

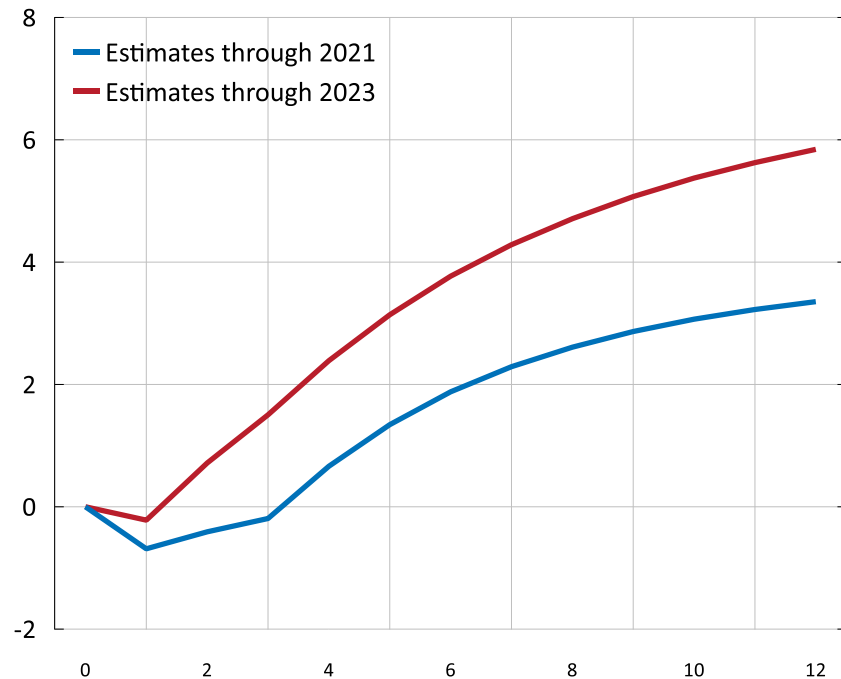


Note. Price increases and decreases are share of prices that increase respectively decrease per month, 12 months gliding average. CPIF as annual percentage change.

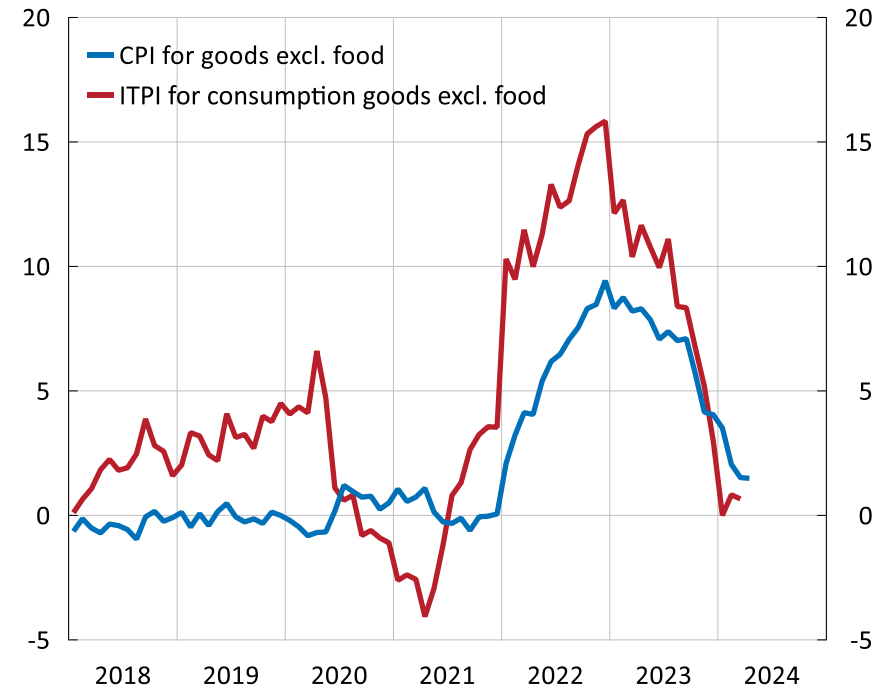
Sources: Statistics Sweden and the Riksbank

Greater pass-through from increased costs to price increases than before

Effect on prices of goods when producer prices are increased with 10 per cent in period 0



Producer prices had a greater impact on consumer prices



Note. Left: percentage change. Goods excl. food. Right: annual percentage change. ITPI is domestic supply price index.

Sources: Statistics Sweden and the Riksbank

Why greater pass-through this time?

- Unusually large disturbances
- Pent-up consumption needs – high demand
- When some companies were forced to raise prices others could follow suit
- Some acceptance of price increases



Both supply and demand factors important for the rise in inflation

- Major focus of the debate
- Both supply and demand have played a role
- Analysis at the Riksbank indicates slight overweight for supply factors
- Results depend on model
- Interesting for understanding but for monetary policy the issue is more complex



Easy to get caught up in the zeitgeist

Living in a low inflation era

Why has Inflation Been So Low Since 1999?

Inflation Is Dead and It's Not Coming Back

low inflation is 'the problem of this era'

"I praktiken, för ett land som Sverige, är inflationen död under överblickbar tid. För en kontinent som Europa är inflationen död"

Inflationen ser död ut

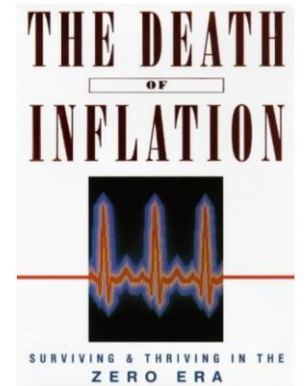
Penningpolitik i en låginflationsekonomi

Inflation is dead: It's below 1 percent in the U.S., U.K., Europe, China, and Japan

Riksbanken måste sänka inflationsmålet

Low inflation is a global phenomenon with global causes

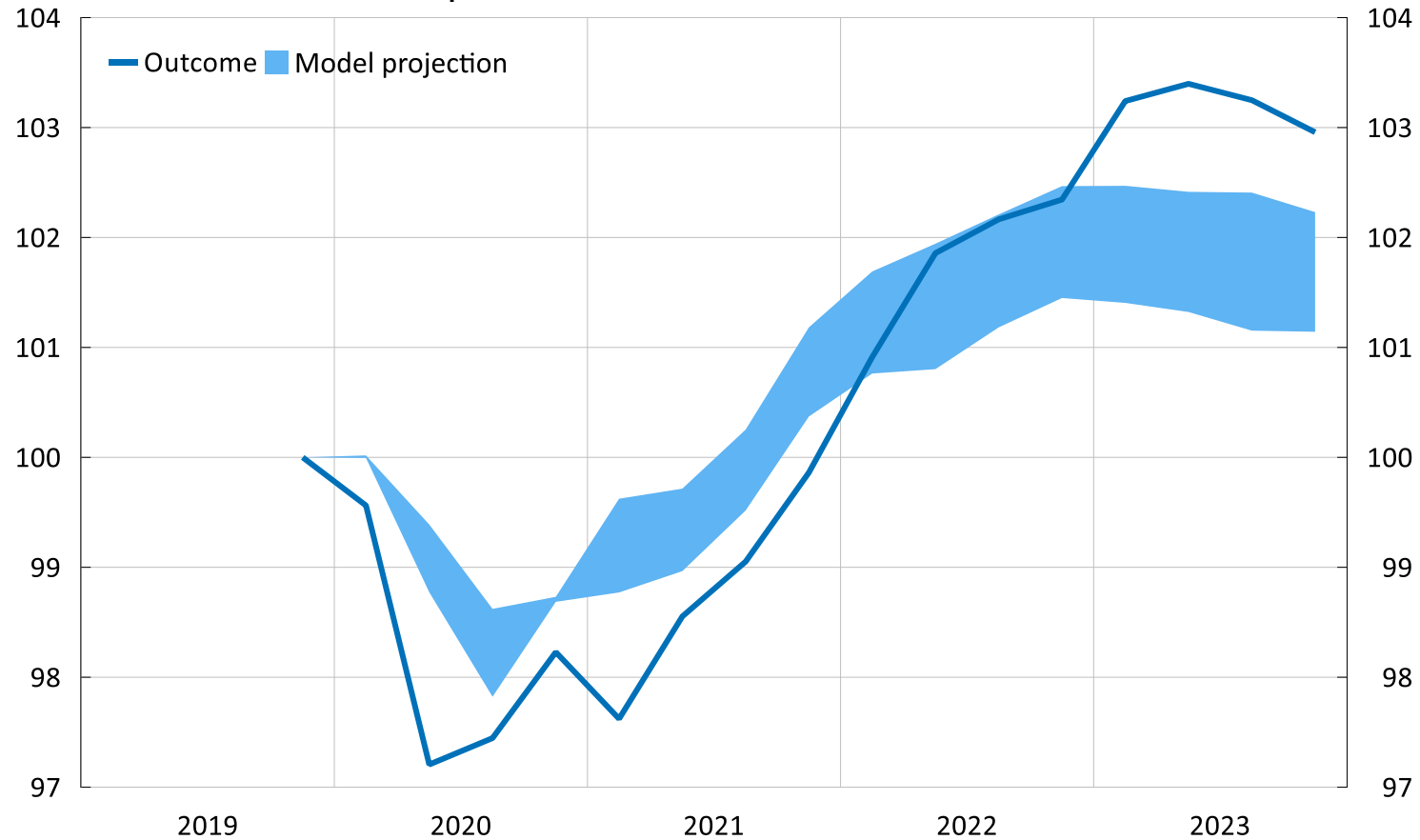
"Low inflation presents challenges for the economy"



Sverige - en låginflationsekonomi

The labour market has been resilient

Employment increased more than expected

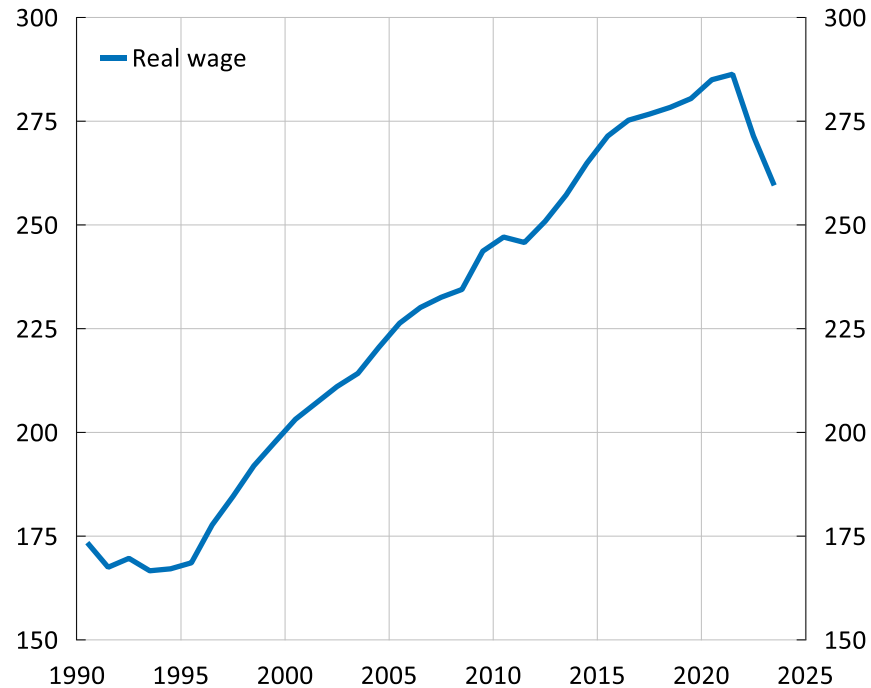


Note. Number of employed, index, 2019Q4=100. The blue field shows the lowest and the highest projections from two Okun-models.

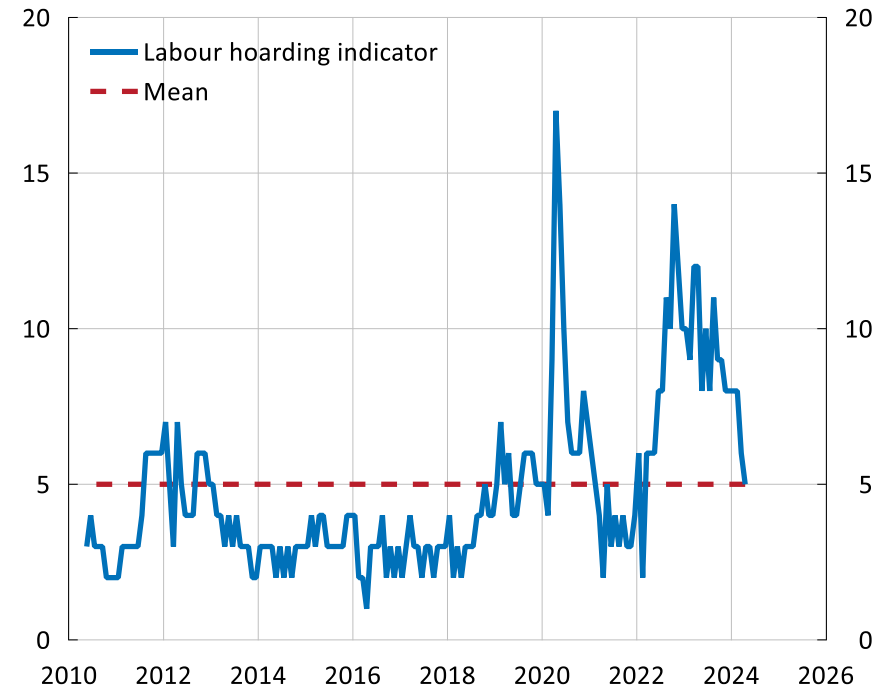
Sources: Statistics Sweden and the Riksbank

Relatively high demand for labour

Weak real wage growth in recent years



Companies have retained more staff than production requires in the short term

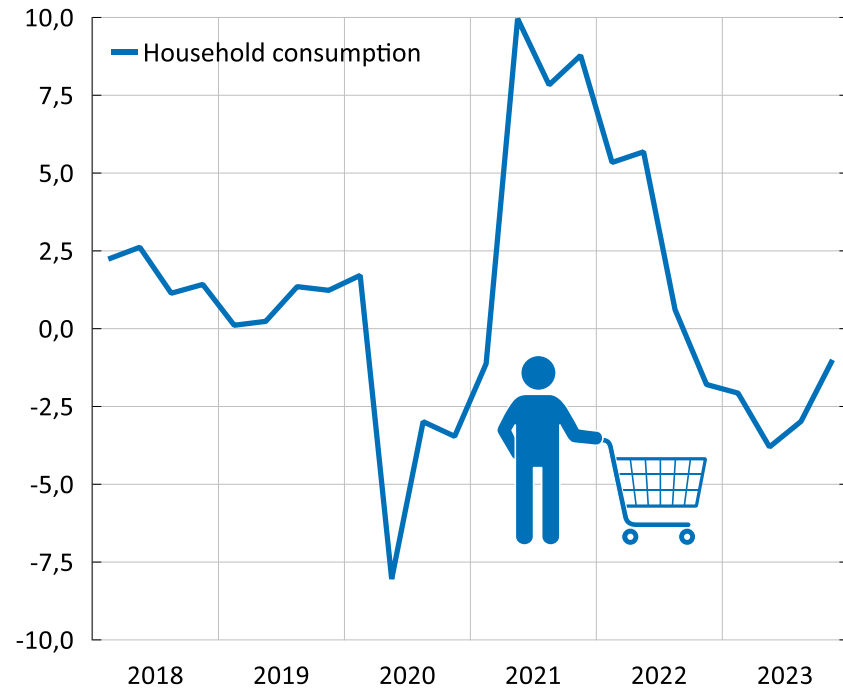


Note. Left: Index: 1960 =100 Right: The labour hoarding indicator is calculated as the proportion of companies expecting an increased or unchanged number of employees at the same time as they expect demand to deteriorate.

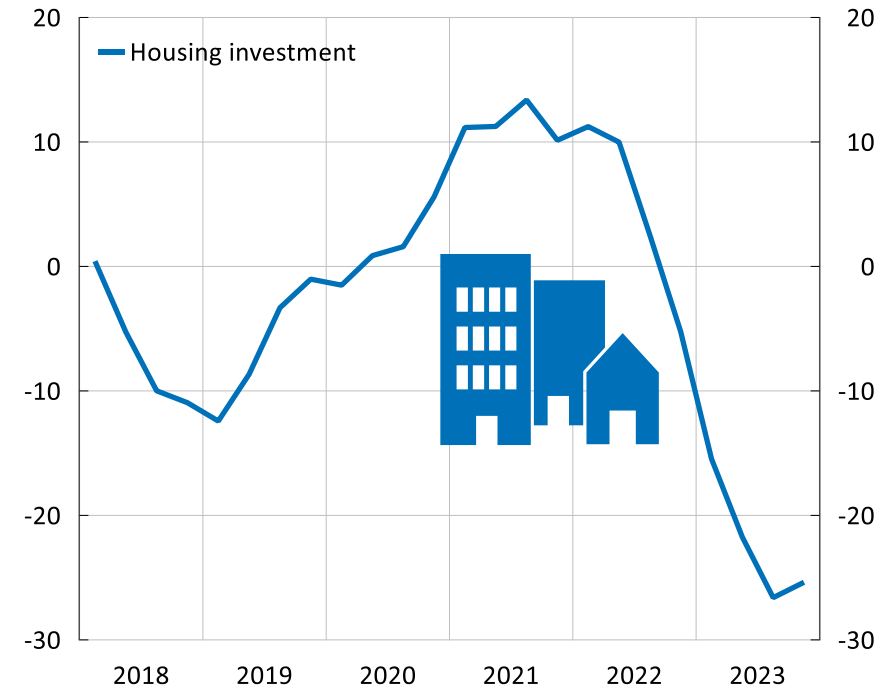
Sources: National Institute of Economic Research, National Mediation Office and Statistics Sweden

Interest rate sensitive parts of the economy have been hit hard

Household consumption



Housing investment

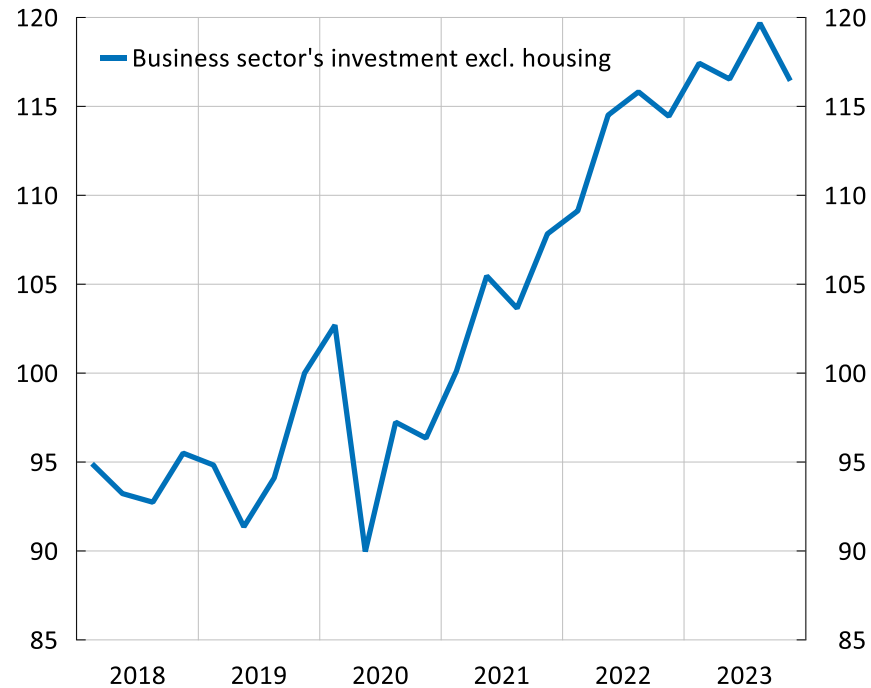


Note. Annual percentage change. Seasonally and calendar-adjusted data.

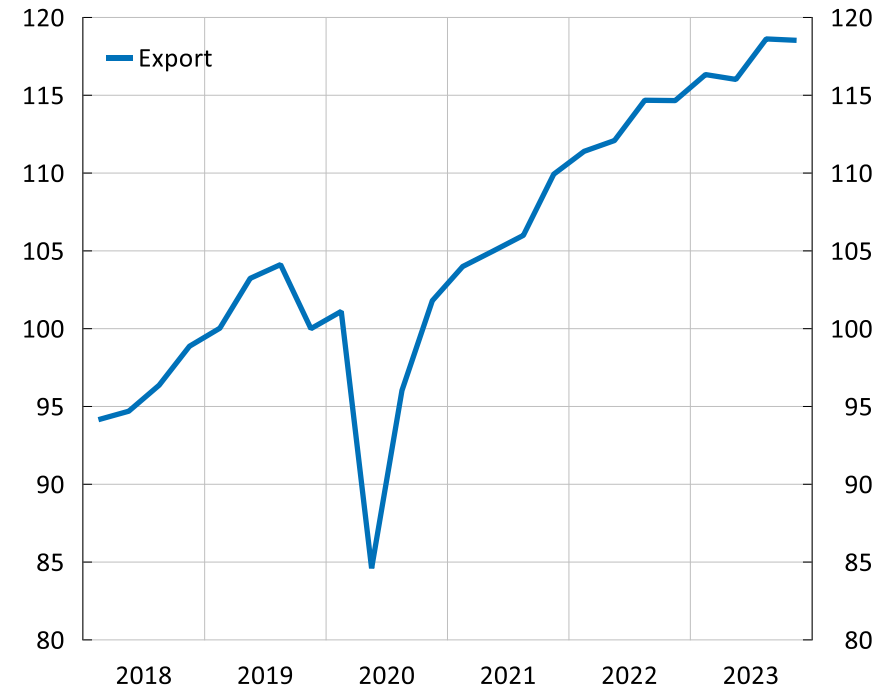
Source: Statistics Sweden.

... but other parts have been resilient

Business sector's investment excl. housing



Export



Note. Index 2019Q4=100. Constant prices, seasonally adjusted data.

Source: Statistics Sweden.

Time for a new phase

- A combination of supply and demand factors and changes in pricing behaviour were behind the rise in inflation
- Surprising resilience in the economy in general so far
- Our economic frameworks have functioned well
 - Monetary policy
 - Fiscal policy
 - Capital requirements and macroprudential
 - Wage formation
- Risks remain but 'soft landing' within reach





Thank you!

S V E R I G E S R I K S B A N K