

## Price Trends

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Price indices	2003		2004		
	Dec 2003/ Dec 2002	Φ (Jan 03-Dec 03)/ Φ (Jan 02-Dec 02)	May 2004/ April 2004	May 2004/ May 2003	Φ (June 03-May 04)/ Φ (June 02-May 03)
<b>Consumer prices</b>	104.6	105.6	100.9	103.8	104.6
Goods	103.9	105.0	100.9	103.0	103.8
Fuels and energy	103.6	103.5	102.8	106.8	102.8
Other	104.0	105.3	100.5	102.2	104.0
Services	106.5	106.9	100.7	105.9	106.5
<b>Administered prices<sup>1</sup></b>	104.0	104.4	102.1	107.9	105.0
Energy	103.5	103.5	103.0	107.6	102.6
Other	104.8	106.1	100.4	108.6	110.0
<b>Core inflation</b>					
Trimmean	104.2	105.9	100.7	103.6	104.8
Excluding food and energy	103.7	104.9	100.6	102.9	103.9
<b>Producer prices</b>	102.1	102.5	100.7	104.2	102.9
Intermediate goods	102.5	102.0	100.8	106.0	103.4
Investment goods	98.9	99.6	101.9	102.8	99.8
Consumer goods	102.4	104.1	100.3	102.6	103.2
<b>Inflation in the EU-12</b>					
Consumer prices	102.0	102.1	100.3	102.5	102.0
Excluding food, energy, tobacco, alcohol	101.6	101.8	100.1	101.8	101.7
Producer prices	101.0	101.5	100.4 <sup>2</sup>	101.4 <sup>2</sup>	101.0 <sup>2</sup>

Sources of data: HICP, IPI: SORS, administered prices: calculated by the IMAD, core inflation: calculated by the IMAD, HICP in the EU: Eurostat (preliminary data) and calculated by the IMAD. Notes: numbers do not always round off; <sup>1</sup>figures between years are not fully comparable because of changes introduced to the consumer price index in 2004, <sup>2</sup>a figure for the previous month.

**Consumer prices** rose by 0.9% in **May**, which pushed the annual inflation rate up by 0.3 of a percentage point to 3.8% (it was 5.5% in May last year). This high price increase, however, did not interrupt the downward trend in the average inflation rate, which fell by 0.1 of a percentage point over April and totalled 4.6% (6.6% in May last year).

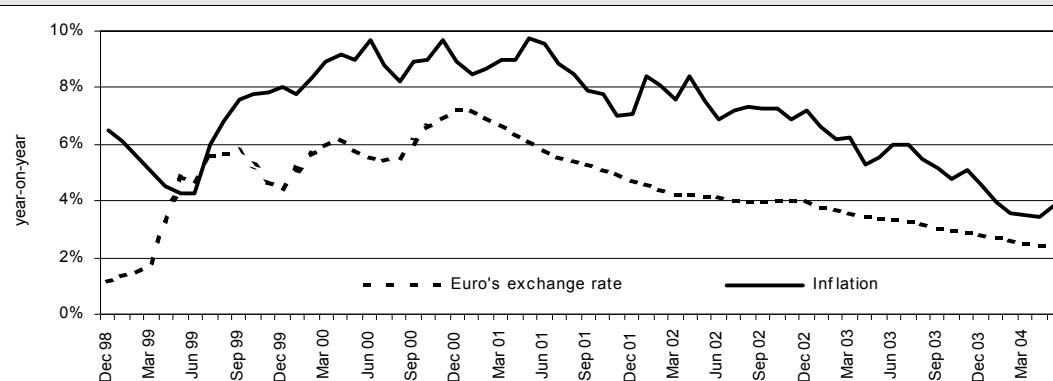
May's price rise was **underpinned by two groups of factors**: the rise in the prices of liquid fuels for transport and heating, contributing 0.3 of a percentage point to inflation, and the rise in the prices influenced by seasonal factors involving clothing and footwear and recreation and culture, which added a total of 0.3 of a percentage point to inflation, and food prices, adding another 0.1 of a percentage point.

This structure of price rises suggests that this **increase in inflation is transitory** and should not jeopardise its decline to the level complying with the Maastricht criteria. Namely, growth rates in the narrow price aggregates continue to decline. The core inflation (the price index excluding energy and non-processed food) fell gradually by 0.8 of a percentage point this year. Further, market-shaped prices continued to fall faster than in 2003: they dropped by 1.7 percentage points in the first five months of this year compared to the 2.2 percentage point fall seen in 2003 as a whole, suggesting that there has been no major secondary impact of higher energy prices so far. Higher oil prices also pushed inflation up in the EMU from 1.7% in April to 2.5% in May.

In Slovenia, a further decline in inflation is assisted by most **economic policies**, with the exception of the policy of administered prices to some extent. The higher rise in administered prices (7.9% year on year in May) was chiefly due to the rise in the prices of liquid fuels for transport and heating (10.8% year on year), however, other groups of administered prices also rose faster than market-shaped prices, mainly the basic local utility service prices, which rose by as much as 12.5% over the last twelve months (see Statistical Appendix, p. A 8).

The downward trend in inflation will also be facilitated by entry into the **Exchange Rate Mechanism II (ERM II)**. The predictable depreciation of the tolar has been one of the main factors of inflation's inertia at a relatively high level in the last few years. Even though the pass-through effect of the rise in exchange rate on prices is not symmetrical, stabilisation of the exchange rate should help keep price rises down.

Graph: **The euro's exchange rate and inflation**



Source of data: BS.