Session 4 – Recent HICP developments and unfinished business

Workshop at the joint UNECE / ILO meeting of consumer prices experts, Geneva, 10 May 2010

Eurostat G6 – Price Statistics
Eight HICP projects

- HICP - AP
- Weightings
- HICP - CT
- Multi-purpose consumer price statistics
- FROOPP
- Quality adjustment and sampling
- Seasonal products
- Owner - Occupied Housing

2009 2010 2011
Frequent out-of-pocket purchases (FROOPP)

- 'Frequent purchases' are typically at least monthly.

- 'Out-of-pocket purchases' are considered to be typically paid for by the consumer directly and actively.

- FROOPP comprised 45.6% of the total consumption expenditure in the European Union in 2009.

- Disseminated each month since February 2009
### Frequent out-of-pocket purchases (continued)

<table>
<thead>
<tr>
<th>COICOP/HICP Main Groups</th>
<th>Share of FROOPP in Main Group</th>
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</thead>
<tbody>
<tr>
<td>1  Food and non-alcoholic beverages</td>
<td>100 %</td>
</tr>
<tr>
<td>2  Alcoholic beverages and tobacco</td>
<td>100 %</td>
</tr>
<tr>
<td>3  Clothing and footwear</td>
<td>2.2 %</td>
</tr>
<tr>
<td>4  Housing, water, electricity, gas and other fuels</td>
<td>0 %</td>
</tr>
<tr>
<td>5  Furnishings, household equipment and routine maintenance of the house</td>
<td>25.9 %</td>
</tr>
<tr>
<td>6  Health</td>
<td>32.4 %</td>
</tr>
<tr>
<td>7  Transport</td>
<td>42.7 %</td>
</tr>
<tr>
<td>8  Communications</td>
<td>4.5 %</td>
</tr>
<tr>
<td>9  Recreation and culture</td>
<td>50.5 %</td>
</tr>
<tr>
<td>10  Education</td>
<td>0 %</td>
</tr>
<tr>
<td>11  Restaurants and hotels</td>
<td>82.7 %</td>
</tr>
<tr>
<td>12  Miscellaneous goods and services</td>
<td>33.6 %</td>
</tr>
</tbody>
</table>
Frequent out-of-pocket purchases (continued)
Seasonal products

- 'seasonal products' means those goods and services that are not available for purchase, or purchased in small or negligible volumes, for certain periods in a typical annual cyclical pattern (fish, fruit, vegetables, clothing, footwear).

- An HICP sub-index at elementary product group level is a 'strict annual weights index' or a 'class-confined seasonal weights index'.

- All products with a weight of at least two parts per thousand during a typical in-season period are covered in the HICP.
HICP at constant tax rates (HICP-CT)

- Shows the theoretical impact of changes in taxes directly linked to final consumption (e.g. VAT and excise duties) on overall HICP inflation, assuming a full and instant pass-through of tax changes.

- Prices at constant tax rates for each individual month are computed by subtracting the taxes applicable then and by adding back the tax rates of the previous December.

- Follow the same computation principles as the HICP - annual chaining, coverage, weights, etc.

- All-items HICP-CTs are released regularly in Eurostat's online database - one month later than the HICP.

- A proposal for a regulation on HICP-CT is under discussion.
HICP at constant tax rates (continued)
HICP administered prices (HICP-AP)

- Administered prices are prices directly set or influenced to a significant extent by the government

- Classification was provided by the National Statistical Institutes or National Central Banks

- First release of experimental indices in February 2010

  HICP of administered prices, of fully administered prices and of mainly administered prices

  HICP all-items excluding administered prices, excluding fully administered prices and excluding mainly administered prices

- The HICP-AP is labelled as 'experimental' at least until the successful completion of a further verification round in 2011
HICP administered prices (continued)
Weightings

The **proposed regulation** aims to establish tighter standards for HICP weightings, especially as regards frequency of update, reference period of weights and sources of data:

- Weights aim to be as representative as possible.
- Requirement of regular annual review and updating on the sub-index level
- Utilization of most up-to-date available data - from \( t-2 \)
- Utilization of **national accounts** as well as other sources such as Household Budget Surveys
- Existing specific standards for insurance and seasonal products are not affected
Quality adjustment and sampling

- **Task Force** of EU NSIs developed proposals on:
  - Definition and use of Consumption Segments
  - Stratification and sampling
  - Choice of elementary aggregation formulae

- A **Centre of excellence** worked on quality adjustment and delivered product specific recommendations for the application of quality adjustment methods.

- Currently taking forward that work - **Implementation Group on Quality Adjustment and Sampling**
Quality adjustment and sampling (continued)

Current work is focussed on:

- Finalising a detailed COICOP/HICP Classification,
- Proposals for new HICP standards on sampling, replacements and aggregation formulae,
- New product-specific standards for rents, telecoms, air transport, …
- Harmonising the application of the concept of consumption segments.
Owner-occupied housing

- Shelter provided by Owner-occupied housing (OOH) is currently excluded from HICPs.

- Need to establish house price indices and OOH indices in order to improve the relevance and comparability of the HICPs.

- Proposal for an OOH Regulation
  - House price indices
  - Satellite OOH indices
Owner-occupied housing (continued)

- Owner-occupied housing (OOH) following the net acquisitions approach

- Practical implementation of the net acquisitions approach:
  - classification issues
  - the price concept and the issue of timing
  - derivation of owner-occupied housing weights
|   | **Acquisitions of dwellings**  
<table>
<thead>
<tr>
<th></th>
<th>(Costs of buying dwellings)</th>
<th>OOH</th>
<th>House Price Index</th>
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<tbody>
<tr>
<td>1</td>
<td><em>New dwellings</em></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>2</td>
<td><em>Existing dwellings</em></td>
<td>(X)</td>
<td>X</td>
</tr>
<tr>
<td>3</td>
<td><em>Other costs related to the acquisitions of dwellings</em></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
|   | **Ownership of dwellings**  
|   | (Cost of owning dwellings)  | OOH | House Price Index |
| 1 | *Major repairs and maintenance* | X   |                   |
| 2 | *Insurance connected with the dwelling* | X   |                   |
| 3 | *Other services*             | X   |                   |
Multi-purpose consumer price statistics

- New medium term strategy for prices ➔ structural approach to prices ➔ multi-purpose consumer price statistics

- Elements:
  - Common and more detailed classification of COICOP for all relevant statistics
  - Development of detailed Price Level Indices and HICPs for detailed price level analysis
  - Modernization of data collection methods
  - Careful integration of HICPs and PPPs
  - Macro data warehouse
  - Development of communication with NSIs and price data users