The ECB as user of the HICP

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Joint UNECE/ILO meeting on Consumer Price Indices
ECONOMIC AND MONETARY UNION (EMU)

- EU Member States which have adopted the euro
- EU Member States with a special status
- EU Member States with a derogation
CONVERGENCE CRITERIA

Economic and Monetary Union

Price stability

Interest rate convergence

Public finance discipline

Exchange rate stability
Convergence criteria on price stability:

“… a Member State has a price performance that is sustainable and an average rate of inflation, … that does not exceed by more than 1.5 percentage points that of, at most, the three best performing Member States in terms of price stability.”

“… measured with a CPI on a comparable basis, taking into account differences in national definitions.”
Article 105 of the Treaty establishing the European Community:

“1. The primary objective of the ESCB [Eurosyste] shall be to maintain price stability.

Without prejudice to the objective of price stability, the ESCB [Eurosyste] shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2.”
"Price stability shall be defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability is to be maintained over the medium term."

The Governing Council aims to maintain inflation rates at levels below, but close to, 2% over the medium term.
Analysis of HICP data

• The HICP is a crucial input into monetary policy decisions and yardstick against which its success in achieving this objective can be measured.

• Thorough analysis is made of every release to identify the key drivers behind changes in the overall index
  • use of breakdowns both by product and by country
  • analysis combined with driving forces of inflation: commodity, import, producer prices, opinion survey data, wages, profits information on government measures such as indirect taxes and administered prices

• Forecasting of HICP and main components (with further disaggregation of food and energy) over a short-term horizon, HICP and HICP excluding energy over medium-term horizon

<table>
<thead>
<tr>
<th>Table A</th>
<th>Macroeconomic projections for the euro area</th>
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<tbody>
<tr>
<td>(average annual percentage changes)(^{1,2})</td>
<td>2009</td>
</tr>
<tr>
<td>HICP</td>
<td>0.3</td>
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HICPs mainly used in the ECB

- Breakdowns of euro area and country indices:
  - by type of product: unprocessed food, processed food, industrial goods, services, energy (with further disaggregations down to 4 digit COICOP)

- Measures of underlying inflation
  - Statistical exclusion measure e.g. trimmed mean
  - Permanent exclusion measures e.g. HICP excl. food and energy

- Measures of government impact on inflation
  - Administered (Regulated) prices; indirect taxes (constant tax HICP)

- Seasonally adjusted HICPs (compiled by ECB)
  - Seasonality found for many products (e.g. due to seasonal sales)
Chart 21 Breakdown of HICP inflation: main components

(annual percentage changes; monthly data)

- total HICP (left-hand scale)
- unprocessed food (left-hand scale)
- energy (right-hand scale)

- total HICP excluding energy and unprocessed food (left-hand scale)
- processed food (right-hand scale)
- non-energy industrial goods (left-hand scale)
- services (left-hand scale)

Source: Eurostat.
The ECB’s key requirements

The key requirements of the ECB for the HICP are:

- Monthly frequency
- Good timeliness
  - Flash estimate at t-1 day
  - Full release at t+15 days
- Broad coverage of household expenditure
- High degree of accuracy and precision
  - Given the crucial role in monetary policy stance, requirements for the HICP are higher than for any other economic statistic
- High degree of harmonisation across countries
  - Important both for understanding the euro area index, but also for convergence assessments for non-euro area countries
Whilst always room for improvement, the HICP largely fulfils these requirements.

The development of the HICP has featured close involvement of the ECB and other key users resulted in a high quality index which is fit for purpose.

• Participation in the HICP Working Group
• Formal Opinion of the ECB whenever new legal acts are proposed

Key priorities for future work:

• More information on housing market developments
• Improvement in methods for quality adjustment and sampling
• Breakdown of the flash estimate into 4 or 5 main components
Thank you for your attention!