



Reporting on inflation

A new approach in the Netherlands

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The use of the Consumer Price Index has developed over time

In the old days, the CPI was developed to measure the cost of living of consuming households,

In the past decades, the use of the CPI as a monetary measure of inflation has become ever more important

In Europe, the HICP is the ECB leading indicator for inflation and for monetary policy



Definition of inflation

Inflation is a sustained increase in the general price level

What is a general price level and how can it be measured?

“Inflation” at Statistics Netherlands

Before 2000: “inflation” was a term not used by CBS.
The correct term was “the annual rate of change of the Consumer Price Index”

Somewhere around 2000: “inflation” was defined as
“the annual rate of change of the (national) CPI.”

From June 2017: There is no longer one “inflation”
outcome.



Reason for the change

CPI is an important measure of inflation,

- Consumption may be considered the ultimate goal of the production process
- CPI is a rapid indicator,

However, it is not a complete measure of inflation.



Three months of very low inflation

From the past decade, I selected three months where the annual rate of the CPI became close to zero:

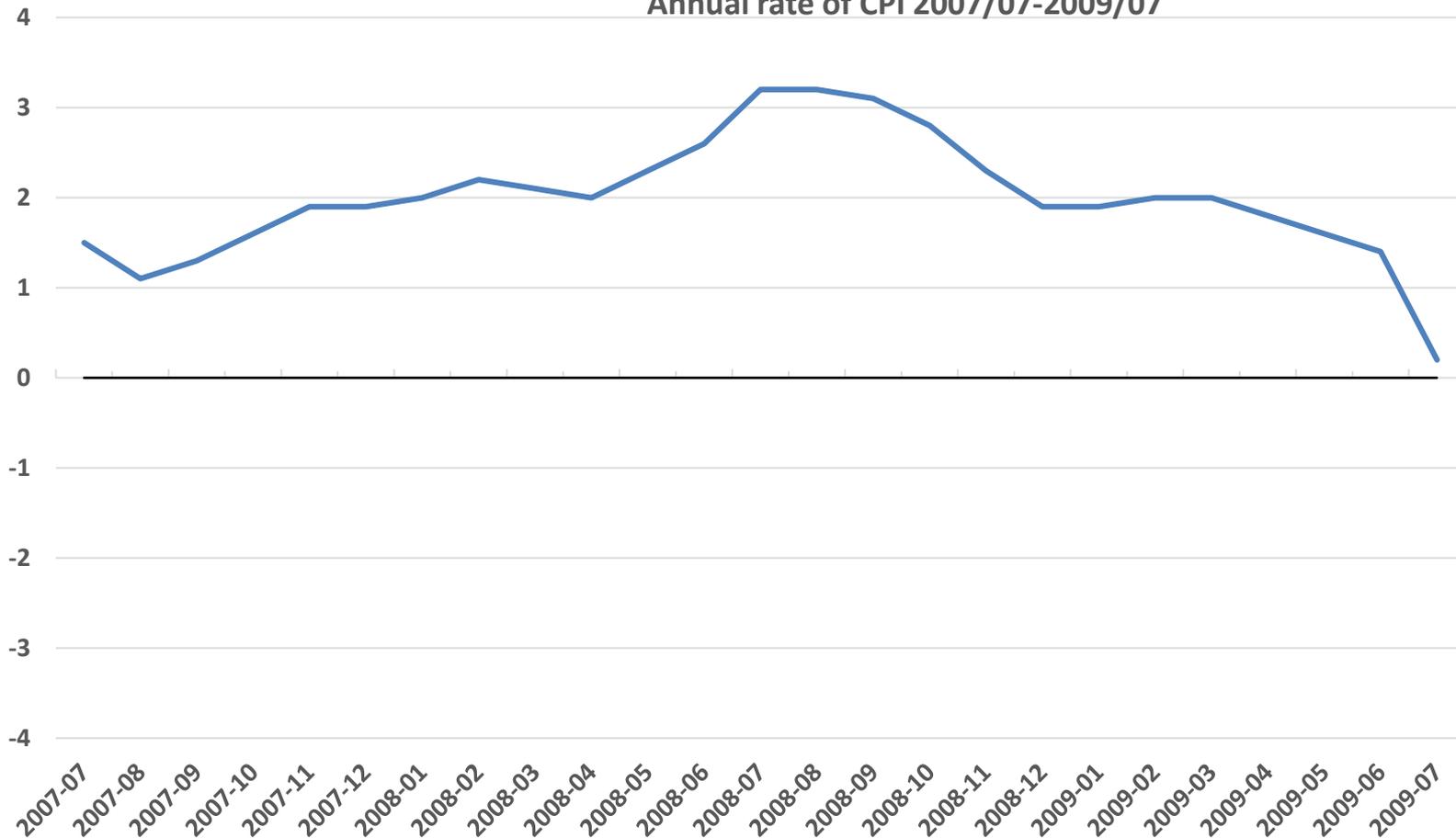
- July 2007 – July 2009.
- January 2013 – January 2015.
- July 2014 – July 2016

My question to you is, do you consider that these three moments have a comparable inflation situation?

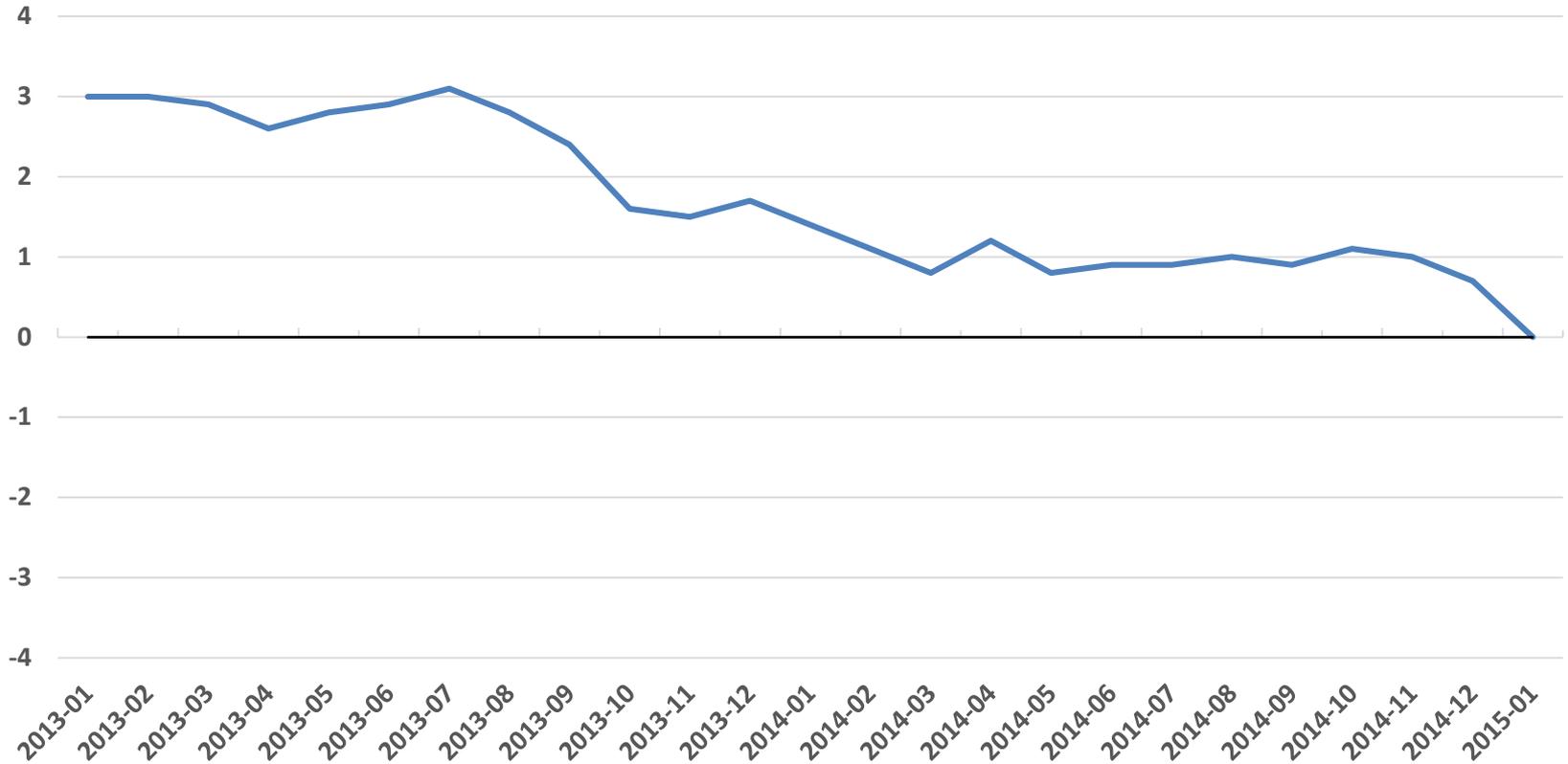
Which of these three periods would indicate the largest risk of a deflationary period?



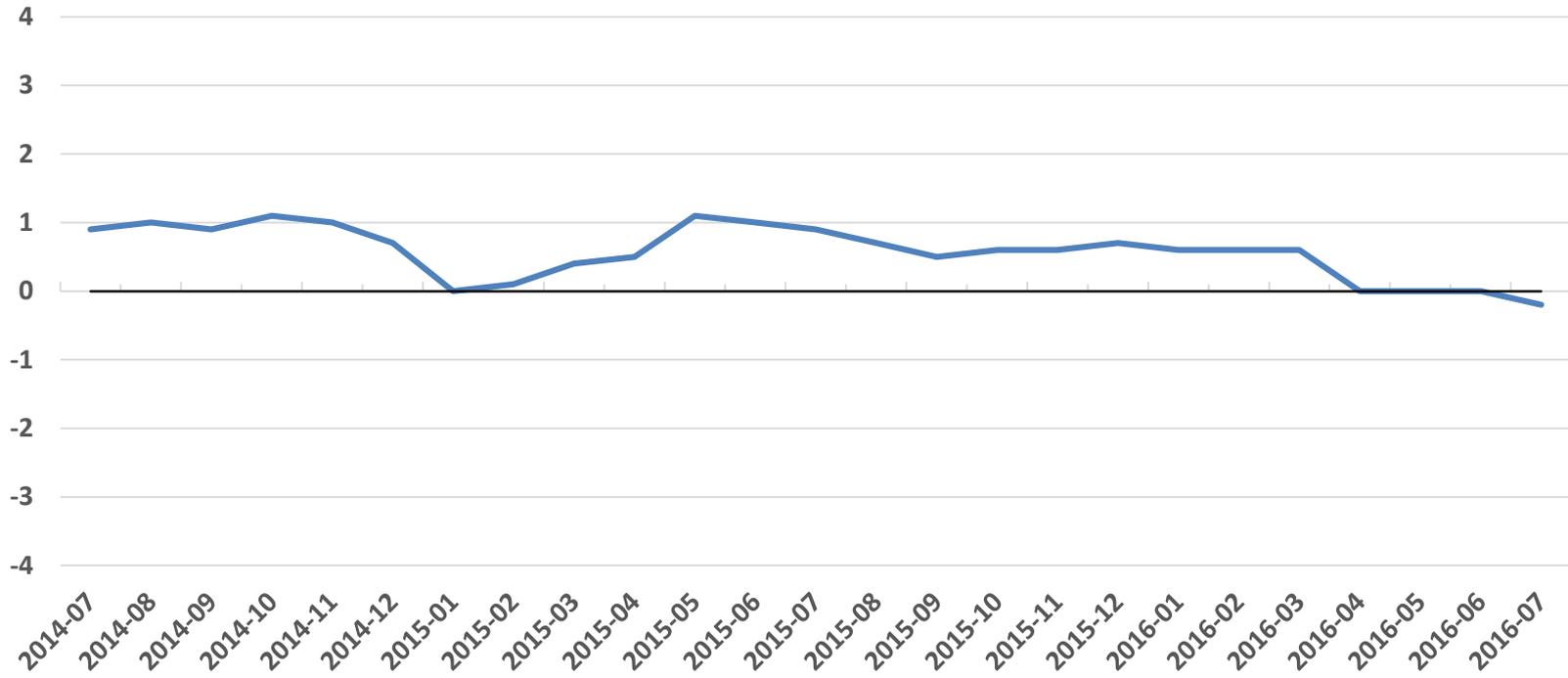
Annual rate of CPI 2007/07-2009/07



Annual rate of CPI 2013/01-2015/01



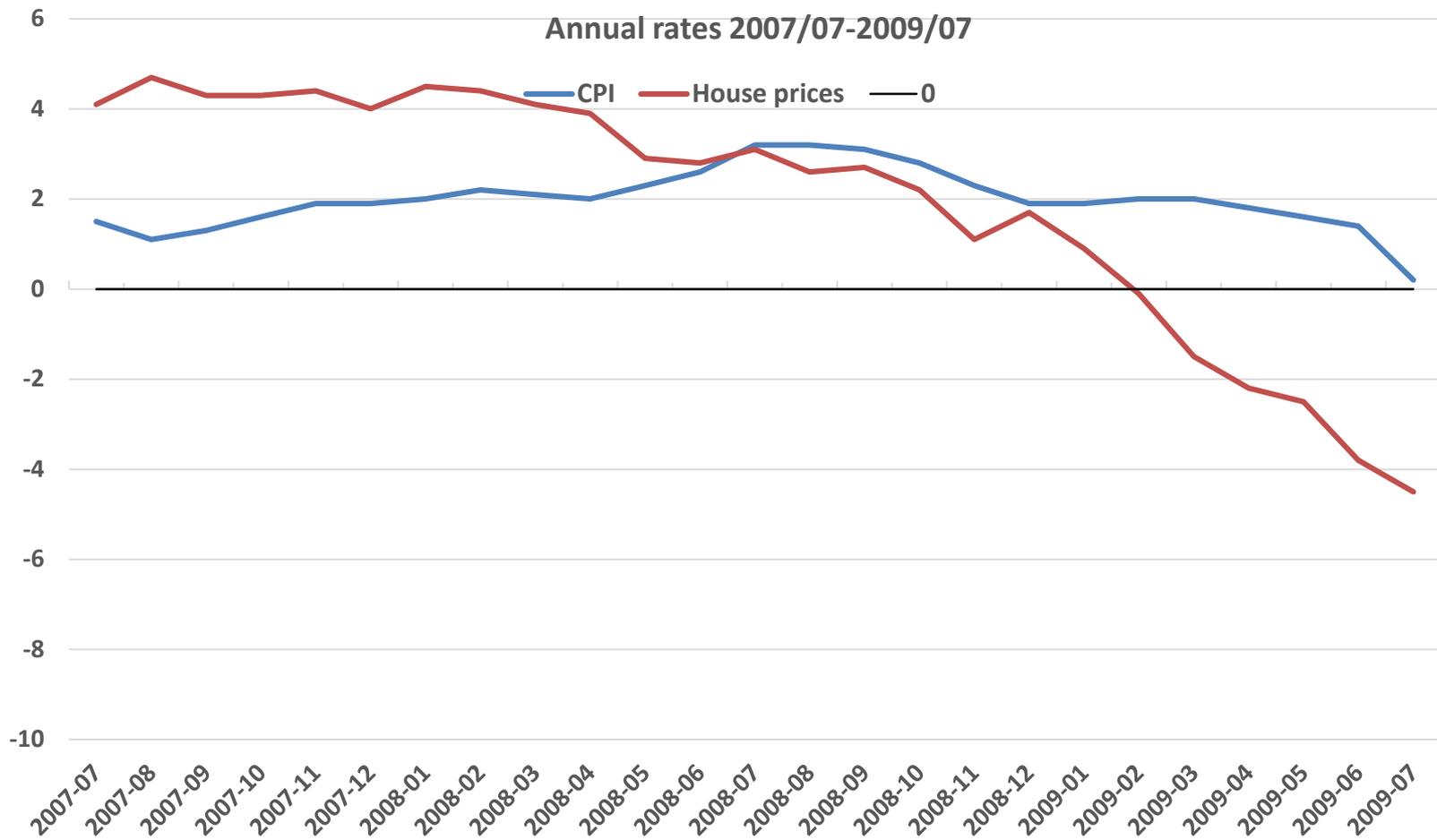
Annual rate of CPI 2014/07-2016/07

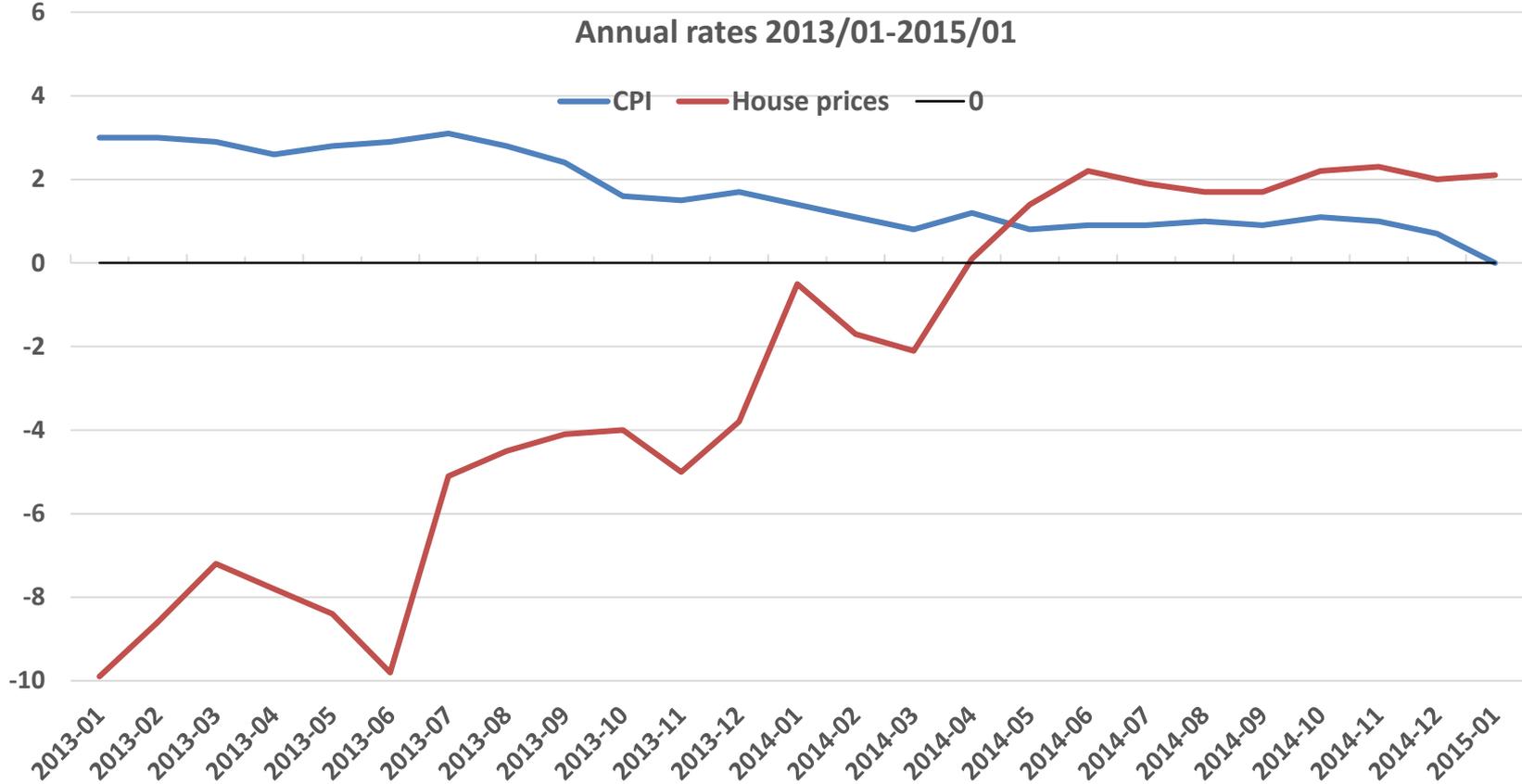


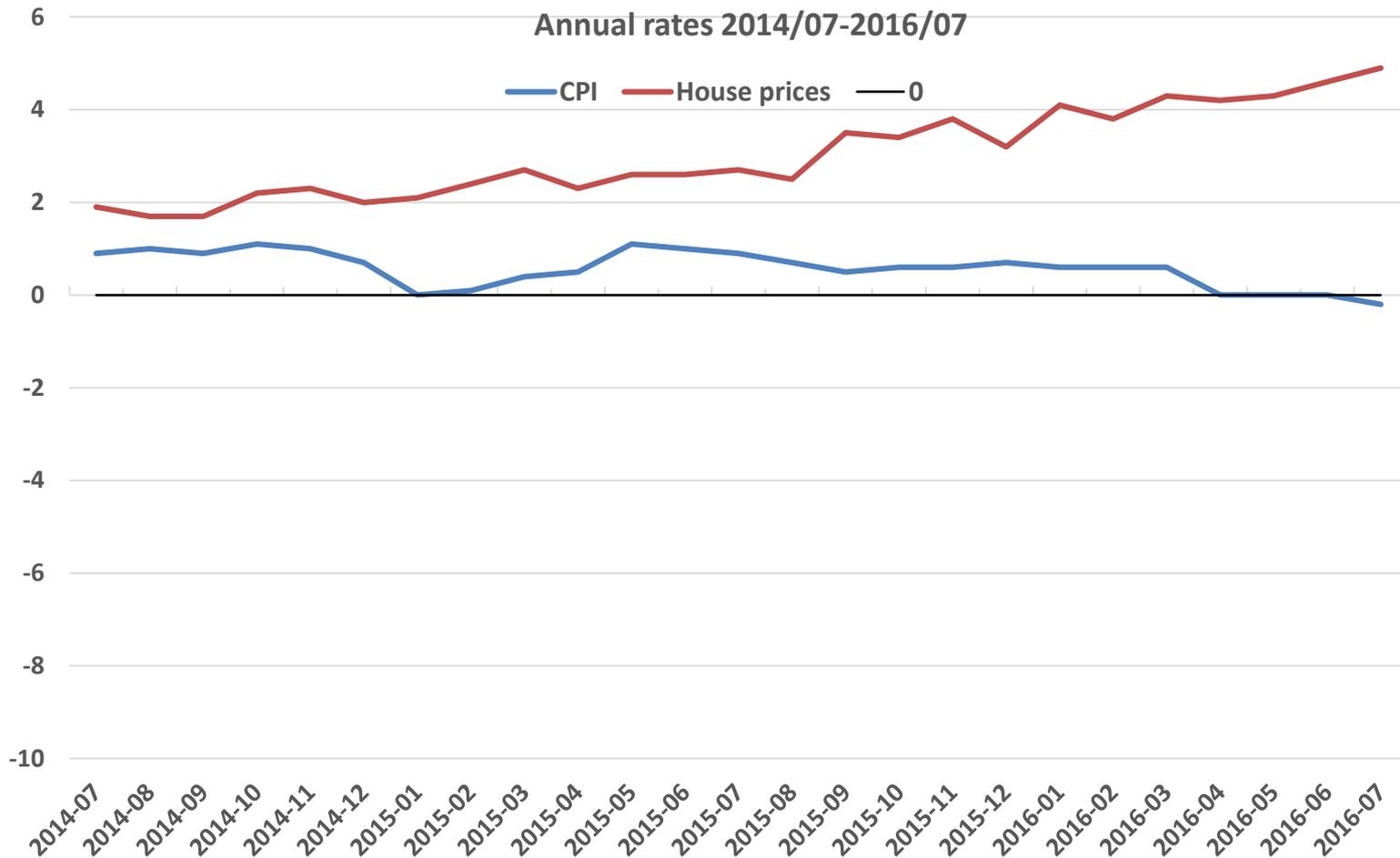
Three months of very low inflation

- The person who sees low inflation of consumer prices may also be interested in buying a house.
- The price of houses is not included in the CPI, but buying a house may be the most important expenditure decision in a person's lifetime.
- My question to you is, how do you consider the inflation situation if you know both the CPI and house price developments?









From inflation rate to an inflation dashboard

- Rather than publishing one inflation rate, based on the CPI, CBS publishes an inflation dashboard combining 17 indicators
- Based on existing price index series
- We do not aggregate to one overall outcome

Why this new approach

- Different players in the economy experience different “inflation”: consumers, enterprises, investors including homeowners, players on financial markets.
- Price developments in various markets are very asynchronous.
- Focus on one index series may give an erroneous view on overall inflation.



Which price index series are included?

There are four groups in price index series included in the dashboard:

- Consumption
- Production
- Fixed assets
- Financial Markets



Which price index series are included?

Included is: CPI

For each group we selected four series:

Consumption:

- Food, alcohol and tobacco
- Energy
- Non-energy industrial goods
- Services



Production:

- Wages
- Oil
- Imports of industrial products
- Exports of industrial goods

Capital market

- AEX stock exchange index
- 3-months interest rate
- 10-year government bonds
- Gold



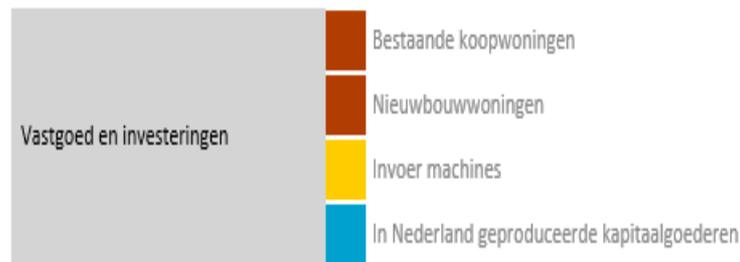
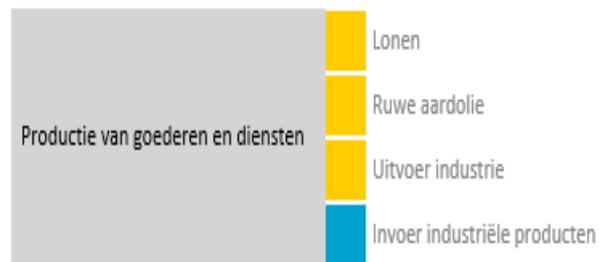
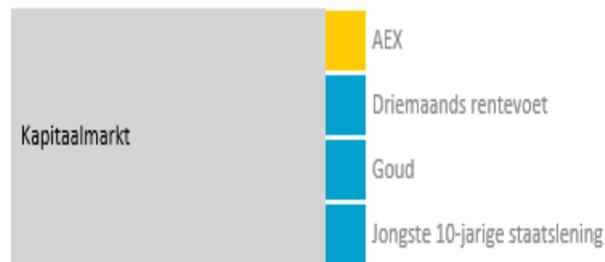
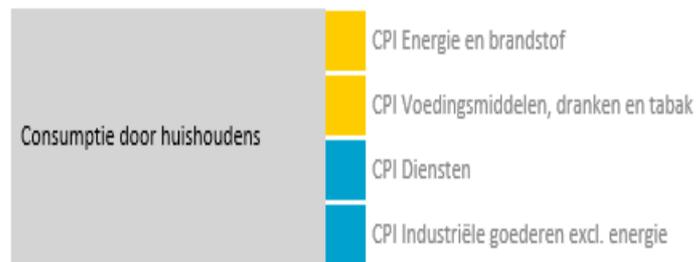
Fixed assets

- Prices existing houses
- Production index new dwellings
- Import of machinery
- Capital goods produced in the Netherlands

The selection of series depends on availability and may change in the future.

What does the dashboard look like?

Prijsveranderingen per segment: maart 2018



First overview of actual month

For each of the 17 series:

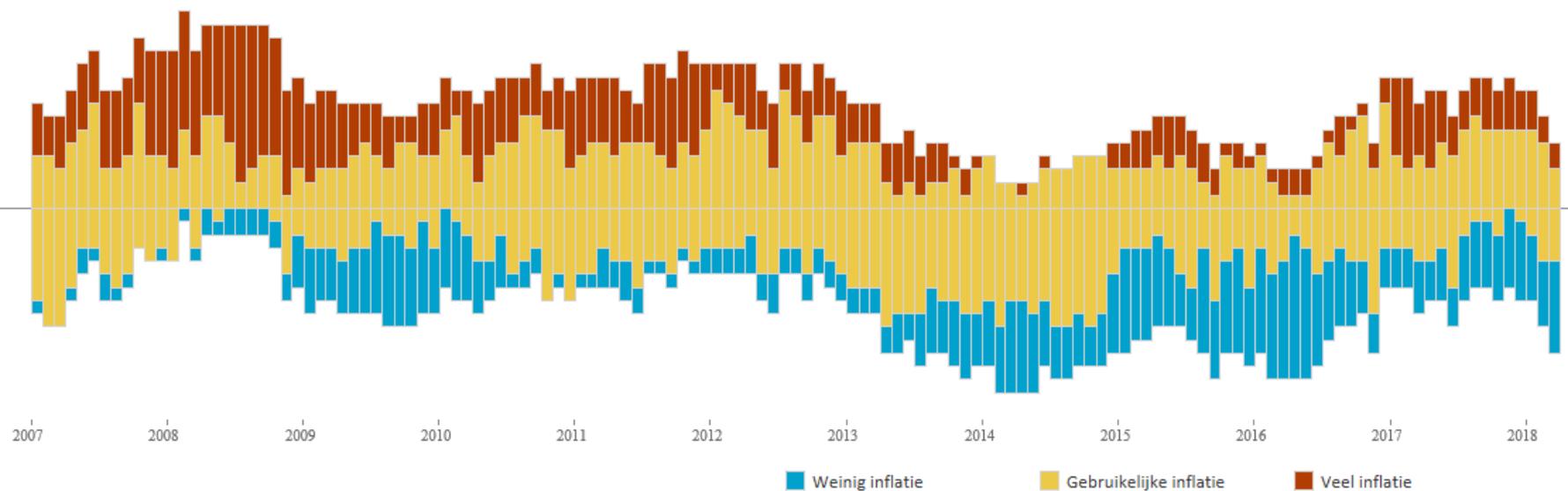
- Red indicates “high” inflation (e.g. houses)
- Yellow indicates: “average” inflation (CPI energy; wages)
- Blue indicates: “low” inflation (interest rates; CPI services)

- Upper 25% of results in past decade
- In between 25th and 75th percentile
- Lower 25% of results in past decade

You can choose to see this overview for each month since 2006



Inflatie-indicatoren per maand



Prijsveranderingen per segment: maart 2018

Second overview of time series

This graph shows the numbers of red, yellow and blue in each month since 2006.

Distinction between yellow above and below median

- Higher inflation: column shifts up or more red
- Low inflation: column shifts down or more blue
- Average inflation: column in the middle and more yellow

Second and more flexible version

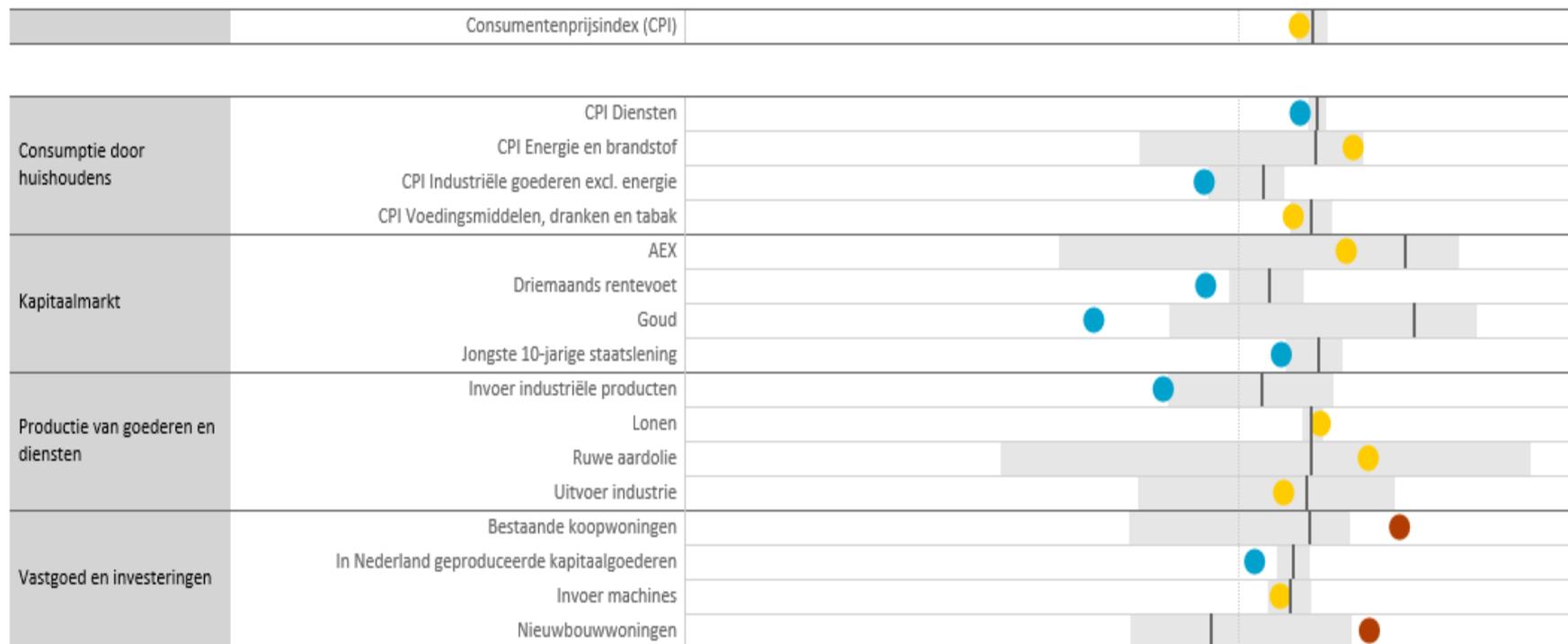
You can choose a more extended version with possibilities to make own selections:

- Length of reference period
- Percentage of months considered red, yellow or blue

Indication of how far from average and position compared to “normal” range.



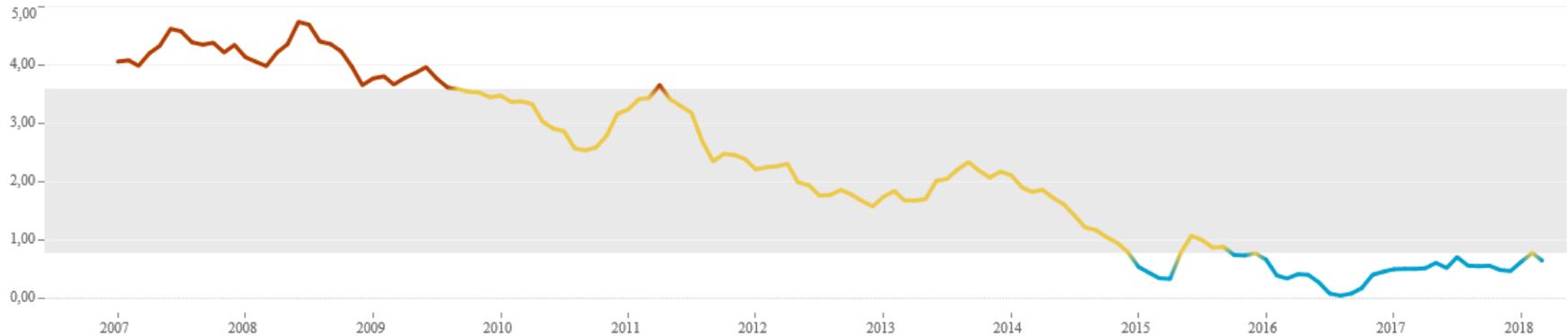
Prijsveranderingen per segment: maart 2018



Individual series

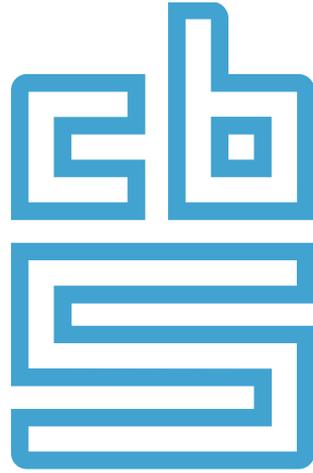
Of course, the 17 time series of annual rates can be selected and shown individually, e.g. interest rate on 10-year government bonds:

Jongste 10-jarige staatslening (% per jaar)



Conclusion, further developments

- First version operational since June 2017
- Basic approach is clear
- More relevant series (more services, less oil)
- Improvement of figures
- Is exchange rate a price for the dashboard?
- Can we make one overall indicator?



Facts that matter