



**An Phríomh-Oifig Staidrimh**  
Central Statistics Office

# information notice

## How to use the Consumer Price Index for Escalation

The Consumer Price Index (CPI), published by the Central Statistics Office (CSO), is designed to measure the change in the average level of prices (inclusive of all indirect taxes) paid for consumer goods and services by all private and institutional households in the country and by foreign tourists on holiday in Ireland.

The CPI, as the most widely used measure of price change, is often used in escalation agreements to adjust payments for changes in prices. The most frequently used escalation applications are in private sector collective bargaining agreements, rental contracts, insurance policies with automatic inflation protection, and alimony and child support payments.

The following are general guidelines to consider when developing an escalation agreement using the CPI:

**Define** clearly the base payment (rent, wage rate, alimony, child support, or other value) that is subject to escalation.

**Identify** the precise CPI that will be used to escalate the base payment (e.g. All Items, Food, Clothing, Housing, etc.)

**Specify** a reference period from which changes in the CPI will be measured. This is usually a single month (the CPI does not correspond to a specific day or week of the month) or an annual average. There is approximately a 4-week lag from the reference month to the date on which the CPI is released (e.g., the CPI for April is released in mid-May).

**State** the frequency of adjustment. Adjustments are usually made at fixed time intervals, such as quarterly, semi-annually, or, most often annually.

**Determine** the formula for the adjustment calculation. Usually the change in payments is directly proportional to the percent change in the CPI between two specified time periods. Consider whether to make an allowance for a “cap” which places an upper limit to the increase in wages, rents, etc., or a “floor” which promises a minimum increase regardless of the percentage change (up or down) in the CPI.

**Provide** a built-in method for handling situations that may arise because of major CPI revisions or changes in the CPI base period. The CSO always provides timely notification of upcoming revisions or changes in the CPI base period.

### The CPI and escalation: some points to consider

Escalation agreements using the CPI usually involve changing the base period payment by the relative change in the level of the CPI between the base period and a subsequent time period. A **typical** method of escalation would involve taking a base value, dividing that by the CPI in the base period and multiplying the result by the CPI in the period you are updating the value to. For example, if you had an initial value of €100 in January 2007 and wanted to update that to February 2008 price levels you could calculate the updated value as follows:

Value in base period (January 2007)	€100
CPI in base period (January 2007):	99.9
CPI in new period (February 2008):	105.5
Updated value in February 2008:	$(€100 / 99.9) \times 105.5 = €105.61$

The Central Statistics Office (CSO) neither encourages nor discourages the use of price adjustment measures in contractual agreements. The decision to employ an indexation mechanism, as well as the choice of the most suitable index, is up to the individual or party.

The CSO cannot provide assistance in relation to legal questions. The CSO can only provide basic assistance on statistical questions. However, this assistance is provided without acceptance of any responsibility by the CSO.

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