



EUROPEAN COMMISSION
EUROSTAT

Directorate G: Business Statistics
Unit G-6: Price statistics



HICP COMPLIANCE MONITORING

INFORMATION NOTE

ON THE HARMONIZED INDICES OF CONSUMER PRICES

FOR IRELAND

March 2010

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Ireland in early 2009. The statistical practices used to compile the HICP for Ireland have been reviewed against HICP methodology and other guidelines and good practices in the field of consumer price indices.

This report takes account of publicly available information on the CPI and HICP for Ireland and additional information collected by Eurostat prior to, during and following a mission to Ireland - the Central Statistics Office (CSO) - held on 13 March 2009.

I. OVERALL ASSESSMENT

CSO has completed some actions in order to improve the Irish HICP in recent years, concerning in particular price collection and sampling procedures. Eurostat supports CSO's plans to undertake further improvements to the HICP and welcomes the CSO initiative in 2009 to set-up a high level group to review the CPI and its relationship with the HICP.

Instances of non-compliance with the HICP methodology are unlikely to have a major impact in practice on the HICP annual average rates of change. The Irish data pass, for January 2008 onwards, all standard HICP validation tests – they are internally consistent and aggregate correctly. The HICP should be considered broadly comparable to the HICPs of other EU countries.

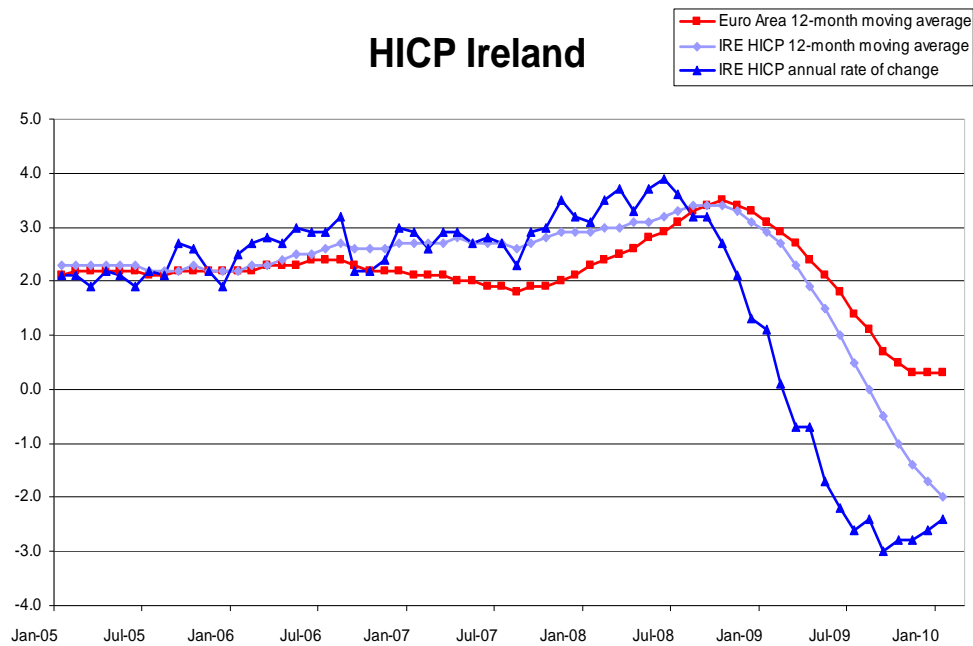
While the reliability of the HICP, in terms of precision and representativeness, appears generally adequate, in some cases the methodology or data used need improvement or further analysis (see Section III). A targeted follow up of these cases will be carried out by CSO and Eurostat.

II. RECENT PRICE DEVELOPMENTS

The focus of Eurostat's early 2009 assessment on price developments was on those headings which had shown the most significant impacts on the 12-month moving average rate of change. The most significant upward impacts on the HICP in February 2009 came from milk, cheese and eggs, bread and cereals, tobacco and restaurants and cafés. At the same time, significant downward impacts came in particular from garments, cars and accommodation services.

In February 2009, the annual inflation rate for Ireland was 0.1%, below the euro area average of 1.2%. Ireland's 12-month moving average rate for the year to February 2009 was 2.7%, below the 2.9% figure for the euro area. The chart below shows the development in the 12-month moving average rate of change and the annual rate of change for Ireland, together with the euro-area 12-month moving rate from January 2005 onwards.

HICP Ireland



III. FINDINGS AND RECOMMENDATIONS

For most headings both the methodology and data appear compliant with HICP requirements, and the movements in both prices and weights in recent periods correctly reflect economic determinants. The item weights for 2009 referred to the year 2007 and were price-updated up to December 2008.

The most important differences between the HICP and the national CPI for Ireland concern the following consumption expenditures, which are excluded from the HICP: mortgage interest payments, union subscriptions, motor car tax, motor cycle tax and some building materials. In addition, car and dwellings insurance are covered with a lower weight in the HICP than in the CPI, in order to reflect only the net service charge.

According to the CSO, the main methodological changes planned for 2009 concerned the introduction of a system of electronic data capture of prices by price collectors and the implementation of the HICP regulation concerning the temporal coverage of price collection.

For some headings with significant impacts on the HICP, the methodology or data used need some further analysis or improvement.

Eurostat recommends that:

- The following coverage issues be reviewed:
 - the treatment of road taxes in order to include these in the HICP.
 - once the necessary discussion of HICP requirements concerning internet purchases has been completed, CSO should verify the significance of internet purchases in the HICP and adjust price collection as necessary. Eurostat welcomes CSO's plans to carry out some further research of its own in this area.

- the coverage of buildings insurance i.e. CSO should ensure that the insurance for the structure of the building is excluded from the HICP.
- In the case of telecommunications, Eurostat supports CSO's plans to improve its approach by enlarging the set of packages and services actually sampled e.g including some of the best selling packages, and by taking account of consumer switching among packages. Eurostat welcomes the plans of CSO to produce separate indices for services and appliances.
- the treatment of both air tickets and package holidays with a view to reflecting consumers' purchasing behaviour in respect of last minute and advance bookings.
- With the introduction of EC Regulation 1334/2007 there is a need to revisit the issues of sample design, replacements and quality adjustment to ensure compliance with the regulation requirements. This applies to several items collected at both central and local level. (e.g. new cars and clothing). In particular, the bridged overlap method of quality adjustment should not be applied as a systematic, default approach. Moreover, the treatment of new ranges of clothing, which are introduced following end of season sales, should be reviewed.
- Eurostat welcomes CSO's intention to use National Accounts data as well as Household Budget Survey data for the calculation of HICP weights, and to move to the annual updating of HICP weights from 2012-13 in line with the Eurostat proposal currently under discussion with the EU National Statistical Institutes.
- Concerning the treatment of cars, Eurostat supports CSO's efforts to review and improve the index. While Eurostat acknowledges that there may have been good reasons for using list prices in the calculation of the index for new cars, CSO should review on a regular basis that the development of prices as it records them accurately reflects the development of the actual transaction prices. Moreover, second-hand car prices should be collected and weighted on a net basis in the HICP.
- Prices collected less frequently than monthly should be collected monthly as required by the HICP framework.
- Although the collection of fuels for transport is compliant with the minimum requirements of the temporal coverage regulation, Eurostat recommends that regular cross-checking of prices with other data sources should take place.
- Eurostat supports the CSO's plans to review the balance of the sample of fruits and vegetables in the index.