



Central Statistics Office
An Phríomh-Oifig Staidrimh

National Consumer Price Index Review Group Report

March 2010

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Terms of Reference

The National Consumer Price Index (CPI) Review Group was formally established at the request of the Director General of the CSO at the beginning of 2009. The terms of reference of the Group were:

- 1 To review the current methodology of the Consumer Price Index, taking account of the links between the Consumer Price Index (CPI) and the Harmonised Index of Consumer Prices (HICP).
- 2 To examine the requirements for greater harmonisation in respect of the HICP and its consequential effects on the CPI.
- 3 To discuss the respective roles of the CPI and the HICP.
- 4 To review the treatment of Housing within the CPI/HICP.
- 5 To review current outputs and explore new developments such as regional price indices and new sub-indices such as the publication of a new frequent purchases index.

In setting out the terms of reference for the Review Group, it was recognised that there were a number of constraints which had to be taken into account. These constraints were:

- 1 The need to keep the HICP and CPI in line with each other with respect to methodology.
- 2 EU legislation may require changes in respect to quality adjustment, sampling, annual updating of weights etc. in the compilation of the HICP to achieve further harmonisation across the EU 27. Such changes will have consequential effects on the CPI.
- 3 The role of the Group will be advisory with final decisions resting with the Director General of the CSO.

Composition of the Group

The Group was comprised of a number of key users from Government Departments, the Central Bank and Financial Services Authority of Ireland, the Economic and Social Research Institute (ESRI), the National Consumer Agency (NCA), representatives of the Social Partners (IBEC & ICTU) and two independent economic analysts and commentators who actively use CPI and HICP data.

The members of the Group included:

Colm McCarthy	University College Dublin
Pat McArdle	Independent Economist
Alan Barrett	Economic and Social Research Institute
Fergal O'Brien	Irish Business & Employers Confederation
Manus O'Riordan	Irish Congress of Trade Unions
Shane Enright	Department of Finance
Aedan Hall	Department of An Taoiseach
Cathal O'Gorman	Department of Enterprise, Trade and Employment
Derry O'Brien	Central Bank of Ireland
Fergal O'Leary	National Consumer Agency

The Central Statistics Office was represented by:

Steve MacFeely	Director of Business Statistics (Chairman)
Paul J Crowley	Head of Price Statistics and International Relations
Andrew Murray	Statistician Prices
Niall O'Hanlon	Statistician Prices
Noreen Dorgan	Manager of CPI Direct Price Collection & Secretary to the Group

Method of Operation

The objectives of the Group were to undertake a major review of the Consumer Price Index, to examine a number of strategic issues including the compilation and presentation of the CPI and to prepare a report with recommendations for consideration in the context of the next CPI rebase which will take place in December 2011. Among the issues for examination were the current method of calculation, the treatment of housing costs, important methodological issues and whether the current national CPI or the Harmonised Index of Consumer Prices should be the national measure of inflation. The overall objective was to review these fundamental issues while at the same time recognising the constraints involved, such as the need to keep the CPI and the HICP in line with each other with respect to methodology.

The Group was constituted in May 2009 and met on four separate occasions on 19th May, 30th June, 28th September and 30th November. The Group considered the following issues at each of the meetings:

Meeting One – 19th May 2009

The first meeting of the Group was an introductory meeting which discussed the role of the Group and presented background information to assist with its deliberations. The items covered at the meeting included:

- 1 Terms of reference, objectives, timeframe and membership.
- 2 Organisation of Price Statistics in the CSO and in the EU and changes introduced in the previous 10 years to the CPI.
- 3 CPI - organisation of survey, method of calculation.

- 4 Housing in the CPI, development of a House Price Index (HPI) and Owner Occupied Housing (OOH).
- 5 HICP developments.

Meeting Two – 30th June 2009

At the second meeting, the Group concentrated on a number of key issues including:

- 1 Review of current CPI methodology.
- 2 The ongoing requirements for greater harmonisation at EU level and the impact on the CPI.
- 3 An examination of the respective roles of CPI and HICP.

Meeting Three – 28th September 2009

A further meeting of the Group took place on 28th September and the following issues were examined:

- 1 Review of recommendations on CPI methodology, the impact of EU harmonisation requirements on the CPI and respective roles of the CPI and the HICP.
- 2 Review of current CPI outputs and consideration of new data requirements.
- 3 Treatment of Housing in the CPI and future developments at EU level with respect to Owner Occupied Housing (OOH) and the effect on the CPI.

Meeting Four – 30th November 2009

The Group met for the final time on 30th November to review the draft report. The Group reviewed the draft report and made a number of minor amendments. It also examined one outstanding issue relating to the annual updating of CPI expenditure weights and agreed to two recommendations on this issue. Following this meeting, the Group was given a further opportunity to consider the draft and to propose any additional changes.

The report was finalised and was presented to the Director General in February 2010 for consideration.

Background

The Director General of the Central Statistics Office established a high level Review Group on the Consumer Price Index (CPI) in the beginning of 2009. The purpose of this Group was to carry out a major review of the CPI and to examine a number of strategic issues in preparation for the next CPI rebase, due to take place in December 2011. The Group was also asked to review the current methodology of the Consumer Price Index, taking account of the links between the Consumer Price Index and the Harmonised Index of Consumer Prices (HICP). It was also mandated to examine the requirements for greater harmonisation in respect of the HICP and to consider the effects of these requirements on the CPI.

The National CPI Review Group was also invited to discuss the respective roles of the CPI and the HICP and to consider whether two separate indices should continue to be produced. Furthermore, it was asked to review the treatment of Housing within the CPI/HICP, in the context of the current method used in the CPI and the likely developments at EU level in respect of the inclusion of Owner Occupied Housing into the HICP at some future date. Finally, the Group was to review current outputs and explore new developments such as regional indices and new sub-indices. The Director General asked the Group to deliberate on these issues and to submit a report to him, for his consideration, with recommendations on how the CPI might be improved.

The Group met on four separate occasions over a seven month period and considered the issues set out in the terms of reference. The Group was conscious that there were some constraints which had to be taken into account while undertaking their task. Given the closeness of the HICP and the CPI, both in terms of methodology and method of production, it was recognised that there is a need to keep them in line with each other in so far as this is possible. The Group was also cognisant of the fact that EU legislation may require further harmonisation in the HICP at EU level with respect to quality adjustment, sampling, annual updating of weights etc. and this would have consequential effects on the CPI. The impact of these possible future changes also had to be taken into account. Finally, it was recognised that the role of the Group was to be advisory with the final

decision on the implementation of any recommendations resting with the Director General of the CSO.

The Group examined a number of key strategic and methodological issues and made a total of 27 recommendations concerning methodology, sampling, outputs, method of price calculation, EU harmonisation requirements and the use of best practice. While recognising that it could not carry out a full and thorough review of all aspects of methodology, the Group acknowledged that the methodology of the CPI is based on the EU HICP framework which is an international standard for the compilation of consumer price indices. In this respect the Group acknowledges that the CPI follows the HICP standards and as such follows international best practice.

The treatment of Housing within the CPI generated some contentious debate. Several members of the Group were unhappy with the current treatment i.e. mortgage interest repayments and expressed a preference to switch to the use of rental equivalence, as an alternative, in order to remove the direct impact of interest rate changes from the index. However, in examining any new proposals, the Group recognised that it had to adopt a more cautious approach, pending a final conclusion at EU level on the treatment of Owner Occupied Housing within the HICP. Consequently, the Group advises that any major developments in the CPI with respect to Housing should await the outcome of deliberations at EU level on the potential inclusion of Owner Occupied Housing in the HICP.

CPI Methodology

Methodology – Sampling

The Group acknowledged that the CPI is a pure price index (rather than a Cost of Living Index) which is not designed to take account of other factors such as substitution (e.g. a shift from dearer to cheaper goods), changes in income levels or family composition. In dealing with the issue of representativity it was noted that there are thousands of product offers available to consumers. The CPI aims at achieving a representative sample of goods and services, outlets and regions in order to measure these product offers. However, there are certain constraints, both in respect of time and costs. It is necessary to achieve a balance between these two constraints and to derive the best, most suitable and most practical method of calculation. The sampling methods employed by the CSO strive to give the best indicator of price trends in the economy and in all cases the samples are sufficiently reliable for the purposes of constructing a consumer price index. The current sample size was examined by the Group. The sample includes 616 items in the basket; 502 of these items are collected directly by 94 price collectors in 83 towns and cities and the remaining 114 items are collected through centrally collected price surveys. In total, almost 4,000 outlets and service providers are covered and in excess 55,000 of prices are collected on a monthly basis.

The Group went on to examine the current basket of goods and services and the changes which occurred as part of the last rebase. The basket of goods and services in the UK RPI, which is broadly similar to the Irish basket was also reviewed. The Office of National Statistics (ONS) in the UK updates the basket of goods and services on an annual basis. The Group reviewed the changes made in the most recent updating of the UK basket. It was noted that most of the items added to the UK basket on an annual basis are new to the basket (existing products e.g. MP3 players) rather than new to the market (new products such as MP4 players).

The issue of sample sizes at EU level was also examined and a comparison of sample sizes for a number of countries in respect of the number of price observations, outlets and

locations was undertaken. This showed that the sample size in Ireland is significantly higher per head of population than for most other European countries.

A number of questions were put to the Group for consideration. Firstly, whether the current sample of goods and services is sufficient to ensure accuracy and reliability. Secondly, whether the sample size in respect of number of price quotations, outlets, service providers and regions is sufficient. There was a view that in the context of efficiency and resource constraints the current sample may be too large and should be reviewed. It was also the opinion of the Group that the sample of goods is disproportionately large relative to the sample of services covered (services accounted for 53% of the expenditure weights at the base period) and therefore the balance between the two should be re-examined, in order to see if the services sector is adequately covered. These issues should be investigated scientifically before any changes to sample size or distribution are made.

The Group made the following recommendations:

Recommendation 1

The CSO should statistically test the efficiency of the sample size in respect of number of outlets, locations, products and services.

Recommendation 2

The CSO should review the coverage of services relative to goods.

Methodology – Weights

At present, the CPI is rebased every 5 years and the last rebase took place in January 2007 (Dec 2006=100). A rebase involves the updating of the basket of goods and services, a revision of the expenditure weights and a review of pricing locations. The primary sources for the rebase are the results of the latest Household Budget Survey, the Census of Population, Tourism and Travel surveys and detailed research carried by CSO into the retail and consumer market. The next rebase will take effect in January 2012 with a base reference period of December 2011=100. The CPI is currently in the 4th year of a five year cycle.

Some EU countries update their expenditure weights and their baskets of goods and services on an annual basis. Eurostat will shortly introduce a proposal to update HICP weights annually using National Accounts data, using year t-2 (i.e. two years previous) as a proxy for year t-1.

There was a thorough discussion on the advantages and disadvantages of the annual updating of expenditure weights. Some believed that annual weights would be more reflective of current consumption. On the other hand, sharp downturns in any one year would not be reflected in the index until 2 years after the event. Other issues which had to be considered were the potential sources for these annual weights: National Accounts data or the introduction of an annual Household Budget Survey (HBS). While many favoured the use of a continuous family household expenditure survey, there was a recognition that under current financial constraints any proposal to introduce an annual survey was unlikely to be implemented in the short term. The Group therefore recognised that a full rebase, which takes approximately 12 months to complete, could not be carried out on an annual basis and that any annual updating of weights would have to be a more limited exercise. A full rebase of the CPI would still be required every 5 years in order to ensure a more detailed updating of the CPI. There was a general consensus that an annual updating would be preferable to the existing approach and that Household Budget or Family Expenditure data would be the most robust source for weights. However, the

Group acknowledged that an annual HBS could only be considered in the context of the CSO's overall budgetary position.

The results of a simulated exercise of the impact on the annual rate of inflation of retaining the 2001 weights instead of employing the 2006 weights was presented to the Group. This showed that in the 29 months from the beginning of 2007 to May 2009, the annual rate of inflation using both sets of weights was not overly different, although the difference had increased somewhat over the most recent months.

The Group was asked to consider a number of questions, including whether the impact of changing weights on an annual basis was important and significant. If the HICP is to move to annual updating, should the CPI also move in order to maintain the link between the two sets of indices? The question relating to the source for this updating was also considered. If annual updating is to proceed then it should commence after the next major rebase (i.e. with effect from January 2013). Eurostat will introduce a regulation which will oblige Member States to update expenditure weights for the HICP on an annual basis, to take effect from 2012. In order to keep the CPI and the HICP linked together as closely as possible, the Group agreed that the weights used in CPI should also be updated on an annual basis. However, it will still be necessary to carry out a major rebase every five years based on the results of the latest Household Budget Survey.

Recommendation 3

In line with the decision taken at EU level in respect of the annual updating of weights in the HICP, the Group recommends that the CPI is also updated on an annual basis from 2013 onwards.

Recommendation 4

Recognising that such a process will not entail a full rebase, the Group recommends that a full rebase of the CPI is still carried out on a 5 yearly basis using the results of the HBS. This major rebase will also entail a revision of the basket of goods and services.

Methodology – Quality and Standards

The Group was asked to make an assessment of the methodology used in the compilation of the CPI. While this subject could be deemed to be too broad an issue for the Group to make a determination, it was considered important that the Group should examine a number of key methodological issues. The EU HICP Framework, which sets out the standards and guidelines for the compilation of the HICP also applies directly to the CPI.

The Group accepted that the HICP Framework provides a sound basis for the methodology of the CPI and, as it is a recognized international standard, agreed that the CPI follows international standards, guidelines and best practice. The ongoing efforts to achieve further harmonisation will provide the CSO with a sound methodological framework in the future. The recent assessment undertaken by Eurostat to assess Ireland's compliance with HICP rules and regulations will serve as an appropriate assessment of the methodology employed in the CPI. In essence, the Group considered this to be an independent external review of the CPI (HICP). The Group proposed that any recommendations arising from the assessment should be fully implemented in so far as is possible and cost effective. It recommended that the CSO carries out an annual review of compliance with EU and other international standards and that the CSO continues to follow best international practice in the compilation of the CPI. It also recommended that the pricing of new and second-hand cars should be reviewed.

Recommendation 5

The CSO should examine the methodology for calculating new and second-hand car price changes with a view to introducing improvements.

Recommendation 6

The HICP Compliance Monitoring evaluation will serve as a useful exercise and the CSO should examine recommendations made by Eurostat with a view to prioritising further improvements.

Recommendation 7

If the HICP and CPI remain as two separate indices, then all methodological changes applied to either index should be applied to the other, with the possible exception of housing, pending further developments at EU level.

Recommendation 8

The CSO should carry out an annual review of compliance with EU and other international standards in the context of the HICP framework.

Recommendation 9

The CSO should continue to follow international best practice.

Methodology – Matched Basket, Quality Adjustment and Substitution

The CSO outlined the concept of the matched basket approach which is used in the calculation of elementary aggregates and price relatives. Challenges to comparability such as substitution, non-availability of products, product modification and quality changes were discussed in some detail. Determining the value of quality changes (and in doing so isolating real price changes) is a central aspect of CPI methodology, as changes in quality or specifications may be accompanied by price changes. There are a number of different methods to deal with quality adjustment: hedonic regression, option costing, judgmental (where the pricer makes a judgement as to the value of the changed specification) and bridged overlap. Bridged overlap is an implicit method of quality adjustment which does not require any major intervention and is the method currently used in both the CPI and the HICP. When a new higher specification model is introduced, using the matched basket approach means that its price observation is not used in the month of introduction of the new model, as to do so would inflate the average price. Instead, the price movement of all other models in that stratum serves as a bridge or overlap and the difference between the trend shown by the models included in the calculation of the average price and the real price change of the new model is the implicit measure of quality adjustment. Eurostat established a Centre and Network of Excellence (CENEX) in 2006 to make recommendations on the most appropriate method of quality adjustment in different domains. It produced recommendations which set out different methods of quality adjustment ranked into three distinct scales. Eurostat recommends A methods as the preferred method of quality adjustment but allows Member States to use B methods as an alternative. C Methods are no longer allowed as an acceptable method. In most cases, bridged overlap is classified as a B method i.e. fully acceptable. The Review Group concluded that the current method employed by the CSO has been accepted as a recognised standard and so the CSO should continue to utilise this method. However, it should also look at other methods, where necessary, so long as the

method employed remains cost effective. Any prioritization of items or services to be subject to a new method of quality adjustment should be done on the basis of the impact on the index i.e. size of weights.

Recommendation 10

The CSO should prioritise which items/services should be subject to a new method of quality adjustment based on Eurostat recommendations and for any sub-index where the current method may be considered to be less than optimal, the methodology should be reviewed.

Requirements for Greater Harmonisation at EU Level

The Group reviewed the full list of legal requirements which forms the basis for the HICP. In addition to an overall framework regulation, there are a large number of EU Commission Regulations and guidelines to which Member States must adhere. At present, a number of new requirements are under consideration. These include new rules and guidelines relating to sampling, replacement and aggregation practices, quality adjustment, classifications, the annual updating of weights, owner occupied housing and quality management metadata. These developments provide a good overall framework for the ongoing development of the HICP and the CPI over the next number of years. The Group noted that Eurostat hopes to unveil a new 3 Year HICP Strategy during 2010.

Recommendation 11

The CSO should implement EU harmonisation requirements in so far as these are practical and cost effective.

An Examination of the Respective Roles of CPI and HICP

One of the key questions to be considered by the Group was whether the CSO should continue to produce two separate indices, the CPI for national purposes as the official measure of inflation and the HICP for international comparisons. Should one index take primacy over the other? Additionally, should greater prominence be given to the HICP or should a better explanation of the differences between the two indices be presented by the CSO? The Group considered these issues and agreed that the CSO should continue to publish two separate indices with each serving a different purpose. In addition, it recommended that there should be a more detailed explanation of the differences between the two indices. Some members of the Group stressed the importance of having two parallel measures, while others considered having just one index as being the better option. However, the Group acknowledged there were still significant differences between the two indices due to differences in coverage and the treatment of housing costs. These issues would need to be resolved before the two indices could be replaced by a single index. On balance, the Group was in favour of having two separate indices, but giving greater prominence to the HICP than is currently the case and providing a better and more detailed explanation of the differences between the two.

Recommendation 12

The CSO should continue producing the CPI and HICP indices, but give a greater prominence to the HICP than is currently the case. The CSO should explain in greater detail the differences between the CPI and the HICP.

CPI Outputs and Analysis

The Group examined the current outputs of the CPI which include the main monthly release, the monthly detailed sub-index release and the 6 monthly Dublin area average price analysis. In respect of the monthly outputs, the Group acknowledged that there is a tight deadline with the monthly release being produced 4 weeks and 2 days after pricing day. In addition, the obligation to meet EU HICP release deadlines was recognised. The current outputs are already quite detailed and the Group was asked to consider whether the current analysis was sufficient or if there was anything missing or required. The outputs produced by the Office for National Statistics (ONS) in the UK were reviewed and while some members of the Group were keen on adopting some of the detailed analysis produced by the ONS, there was recognition that resources in Ireland were more limited and this would have an impact on the ability of the CSO to undertake any significant expansion in current outputs. A number of specific suggestions were made by members of the Group and these ideas will be considered for introduction in 2010 and 2011. The Group agreed that current outputs were, by and large, sufficient to meet current user needs but some additional analysis would be welcome. An example would be to create two new sub-indices which would distinguish between frequent (regular or day to day purchases) and infrequent purchases. Some concern was expressed that the publication of a frequent purchase index may reinforce misperceptions about inflation and so would need to be introduced and explained very carefully. Another possibility would be the publication of indices of administrative prices (prices controlled, directly influenced or set by the Government) and non-administrative prices. The value of the current 6 monthly Dublin Price Analysis was questioned by many. One member would like to see even greater detail but agreed that in its current format it was of little or no value. The Group agreed that the current output comparing Dublin and outside of Dublin price should cease forthwith. It also examined whether there was a need for the CSO to produce more information notes explaining the methodological approaches employed in certain areas of the CPI. In the past, the CSO produced a series of information notes but these need to be updated and re-issued.

The issue of a regional CPI and CPI sub-indices covering socioeconomic groups such as pensioners and income decile groups was also considered. In order to assist in the deliberation of this issue, the CSO carried out a survey of other Member States in the EU to ascertain whether sub-indices or breakdowns of this type were compiled on a regular basis. The results showed that in the case of regional CPIs, only four of the fifteen countries which responded compiled and published regional CPIs. In the case of socioeconomic groups, seven countries have published some detail, two as one off exercises and five, mainly Central and Eastern European Countries, on a regular basis. The CSO emphasised that while prices directly collected in retail outputs could produce robust regional data, the postal enquiries would not have a sufficient sample size to ensure reliable data at a regional level. The Group concluded that the introduction of regional CPIs was not a priority for the present. On the issue of socioeconomic groups, the Group discussed the requirement to produce on a regular but infrequent basis indices by income decile. This would be done on the basis of income decile expenditure profiles from the HBS. It might also be possible to construct a pensioner index. The Group recognised that for the purposes of compiling these 'experimental' indices only expenditure weights would be changed and that there could be no adjustment to the CPI overall prices file to discount the price quotations from more expensive outlets for lower income groups. The Group also encouraged the CSO to examine the feasibility of producing one off publications dealing with issues of special interest such as a regional price analysis. The complexity of these analyses was noted and would require considerable additional data, both on consumer expenditure and outlet choice. Hence, it must be fit for purpose. Any index for administrative prices should be accompanied by detailed metadata, clearly detailing what is considered on administrative price and what criteria were used to distinguish between the public and private sector.

Recommendation 13

Current outputs are sufficient to meet user needs; however, some additional limited analysis would further enhance these outputs.

Recommendation 14

The 6 monthly Dublin Analysis was deemed to be of little value and should be discontinued in its current format.

Recommendation 15

The CSO should introduce new indices such as Frequent Purchases and Administrative Prices.

Recommendation 16

The CSO should produce information notes explaining CPI methodology and update existing notes.

Recommendation 17

The introduction of regional CPIs is not a priority at present.

Recommendation 18

The introduction of socioeconomic price indices (including income deciles/quartiles) is considered to be a priority and the CSO should carry out further research in this area. Data should only be published once it has achieved an acceptable level of quality.

Recommendation 19

The CSO should consider the development of special one-off publications dealing with specific issues.

Housing in the CPI

The Group reviewed the issue of Housing within the CPI. This examination covered the current treatment of housing within the CPI, the current and planned future treatment of housing within the HICP and the differences between the two approaches. The Group was informed of developments with respect to the possible inclusion of Owner Occupied Housing (OOH) into the HICP at some future stage and the likely implications of this development for the CPI. The Group recognised that housing posed specific difficulties in the compilation of a price index, due to the use of different methods and approaches.

To a certain extent, the deliberations of the Group were constrained by the fact that the question of major changes to the treatment of Housing has to remain hypothetical until such time as Eurostat, the ECB and EU Member States arrive at an agreed approach on how best to deal with Owner Occupied Housing. In addition, the CSO is faced with a time constraint with the next rebase of the CPI due to take place in December 2011. Work on achieving a harmonised EU approach is currently moving at a rather slow pace and a final decision may not be reached until after the next CPI rebase. It is likely that in the first instance there will be a stand-alone index for Owner Occupied Housing, produced as part of a 'family' of different HICP sub-indices. The current HICP is likely to remain as the official EU measure of inflation until such time as issues relating to timeliness and data quality are resolved. As a consequence of this delay, it is likely that either (a) the current treatment of housing in the CPI will continue with the inclusion of mortgage interest, (b) the current treatment will continue but with an improved method of calculation in respect of mortgage interest or (c) the CSO could move to an alternative method such as rental equivalence. There were some concerns expressed about the CPI changing to a method such as rental equivalence in 2012 and then subsequently having to change again shortly thereafter if the harmonised EU approach is different (e.g. net acquisition approach). The main issue is whether any change in the CPI should await the outcome of developments at EU level or should the CPI move to a new method independent of the EU harmonisation programme. There were further concerns expressed by members of the Group on the current method employed in the CPI in that it incorporates an interest rate

cycle. While there was no unanimous preference in respect of an alternative approach, some expressed a preference for adopting the rental equivalence approach.

The Group subsequently decided that it should await the outcome of the EU considerations before making a final decision. It also recommended that the CPI should try as far as possible to follow the EU approach if there is to be a change in the CPI. In addition, it was considered practical for the CSO to review its current private rent survey in order to improve its overall quality but also to test its usefulness as a mechanism for measuring rental equivalence. Other possible data sources for private rents should also be examined.

Recommendation 20

The CSO should await the outcome of deliberations at EU level on the treatment of OOH before introducing any changes to the CPI.

Recommendation 21

Should it be decided that OOH be included in the HICP using a specific approach then the CSO should consider the replacement of the mortgage interest element of the CPI with the same method, in order to ensure that the two indices remain related as close as possible.

Recommendation 22

If there is no agreement at EU level, then the CSO should review its current treatment of housing, to validate or amend existing practices as necessary.

Recommendation 23

The CSO should review its current private rent survey, test its usefulness as a mechanism for measuring rental equivalence (in conjunction with National Accounts) and examine other possible data sources.

Other Issues Considered by the Group

Establishment of a Formal Prices Liaison Group

It was agreed that the current Group should continue as a formal liaison Group which would meet on an annual basis but that its remit should be extended to cover the entire domain of price statistics. It will review important new methodological developments, assess progress on the implementation of the agreed recommendations from this report, consider issues in the context of the next CPI rebase and be kept informed of developments at EU level. It will also discuss methodological issues relating to producer prices (Wholesale Price Index and Services Producer Price Index), house prices and international price comparisons.

Recommendation 24

The CPI Review Group should continue to exist in the guise of a formal Prices Liaison Group, meeting at least annually and should review issues such as the implementation of the recommendations of the Group as well as to review significant methodological developments. Its remit will extend into other areas of price statistics.

CPI and Seasonal Factors

The Group recommended that the CSO look at compiling and making available seasonal factors for CPI and sub-indices.

Recommendation 25

The CSO should look at seasonal factors within the CPI and consider the production of a seasonally adjusted CPI but this would not be formally published on a monthly basis.

Dissemination of Data

The Group agreed that the CPI releases should be disseminated electronically on the CSO website but care must be taken that current outputs are not reduced.

Recommendation 26

The CPI releases should be disseminated electronically on the CSO website but care must be taken that current outputs from the monthly releases are not reduced.

Frequency of Non-monthly Price Collection

The Group requested that the frequency of price collection for those items which are not priced on a monthly basis be reviewed.

Recommendation 27

The CSO should review the price collection frequency of goods and services which are not priced on a monthly basis to make the most efficient use of resources.

Appendix

Recommendations

Recommendation 1

The CSO should statistically test the efficiency of the sample size in respect of number of outlets, locations, products and services.

Recommendation 2

The CSO should review the coverage of services relative to goods.

Recommendation 3

In line with the decision taken at EU level in respect of the annual updating of weights in the HICP, the Group recommends that the CPI is also updated on an annual basis from 2013 onwards.

Recommendation 4

Recognising that such a process will not entail a full rebase, the Group recommends that a full rebase of the CPI is still carried out on a 5 yearly basis using the results of the HBS. This major rebase will also entail a revision of the basket of goods and services.

Recommendation 5

The CSO should examine the methodology for calculating new and second-hand car price changes with a view to introducing improvements.

Recommendation 6

The HICP Compliance Monitoring evaluation will serve as a useful exercise and the CSO should examine recommendations made by Eurostat with a view to prioritising further improvements.

Recommendation 7

If the HICP and CPI remain as two separate indices, then all methodological changes applied to either index should be applied to the other, with the possible exception of housing, pending further developments at EU level.

Recommendation 8

The CSO should carry out an annual review of compliance with EU and other international standards in the context of the HICP framework.

Recommendation 9

The CSO should continue to follow international best practice.

Recommendation 10

The CSO should prioritise which items/services should be subject to a new method of quality adjustment based on Eurostat recommendations and for any sub-index where the current method may be considered to be less than optimal, the methodology should be reviewed.

Recommendation 11

The CSO should implement EU harmonisation requirements in so far as these are practical and cost effective.

Recommendation 12

The CSO should continue producing the CPI and HICP indices, but give a greater prominence to the HICP than is currently the case. The CSO should explain in greater detail the differences between the CPI and the HICP.

Recommendation 13

Current outputs are sufficient to meet user needs; however, some additional limited analysis would further enhance these outputs.

Recommendation 14

The 6 monthly Dublin Analysis was deemed to be of little value and should be discontinued in its current format.

Recommendation 15

The CSO should introduce new indices such as Frequent Purchases and Administrative Prices.

Recommendation 16

The CSO should produce information notes explaining CPI methodology and update existing notes.

Recommendation 17

The introduction of regional CPIs not a priority for the present.

Recommendation 18

The introduction of socioeconomic price indices (including income deciles/quartiles) is considered to be a priority and the CSO should carry out further research in this area. Data should only be published once it has achieved an acceptable level of quality.

Recommendation 19

The CSO should consider the development of special one-off publications dealing with specific issues.

Recommendation 20

The CSO should await the outcome of deliberations at EU level on the treatment of OOH before introducing any changes to the CPI.

Recommendation 21

Should it be decided that OOH be included in the HICP using a specific approach then the CSO should consider the replacement of the mortgage interest element of the CPI with the same method, in order to ensure that the two indices remain related as closely as possible.

Recommendation 22

If there is no agreement at EU level, then the CSO should review its current treatment of housing, to validate or amend existing practices as necessary.

Recommendation 23

The CSO should review its current private rent survey, test its usefulness as a mechanism for measuring rental equivalence (in conjunction with National Accounts) and examine other possible data sources.

Recommendation 24

The CPI Review Group should continue to exist in the guise of a formal Prices Liaison Group, meeting at least annually and should review issues such as the implementation of

the recommendations of the Group as well as to review significant methodological developments. Its remit will extend to other areas of price statistics.

Recommendation 25

The CSO should look at seasonal factors within the CPI and consider the production of a seasonally adjusted CPI but this would not be formally published on a monthly basis.

Recommendation 26

The CPI releases should be disseminated electronically on the CSO website but care must be taken that current outputs from the monthly releases are not reduced.

Recommendation 27

The CSO should review the price collection frequency of goods and services which are not priced on a monthly basis to make the most efficient use of resources.