



Central Statistics Office
An Phríomh-Oifig Staidrimh

Information notice

The Consumer Price Index

Definition

The consumer price index is designed to measure, in index form, the change in the average level of prices paid for consumer goods and services by all private households in the country and by foreign tourists while on holiday within Ireland. It is the most widely used measure of consumer inflation.

It is compiled and published every month by the Central Statistics Office. It is an accurate, objective and independent measure of price changes of consumer goods and services.

Index

The index expresses the current cost of purchasing a fixed basket of consumer goods and services as a percentage of the cost of purchasing the same identical basket at the base period December 2001 equal to 100.0. It is compiled in respect of the second Tuesday of each month.

Coverage

The CPI is an average index designed to cover all household types from urban to rural, from high to low-income and covering differences in age and marital status. It measures the price changes of goods and services typically consumed by all consumers. In addition, the expenditure of tourists on specific items such as accommodation, meals out, entertainment and car hire is included by increasing the relative size of the expenditure by private households on such items.

Base Period

The current monthly series was introduced in January 2002 to base December 2001 equal to 100.

Weights

The expenditure weights used in the index reflect the average expenditure by all households on various categories of goods and services. In effect the weighting of each item in the basket is a way of expressing the importance of the amount of money spent on each. Updated weights based on the results of the 1999/2000 Household Budget Survey, price updated to December 2001, were introduced in January 2002. Market research and analysis on what items should be included under each heading took place throughout the whole of 2001. The weights of each item, therefore, reflect consumer patterns up to the beginning of 2002.

Every five years new weights and new items are introduced into the index. At present the basket contains a total of 613 items. Some items are further broken down into different varieties and in total over 1,040 different varieties are included in the basket. At the last rebasing many new items were added to the basket. These included a more comprehensive selection of chilled and prepared convenience foods, household services, alternative and complementary medicine, social protection services and other services including professional services, veterinary services, beauty treatment and weddings and funeral services.

Every household purchases a different combination of goods and services. While the CPI represents all households in Ireland, it is obvious, given the number of different goods and services available in the market place, that not every item purchased by every household can be included in the CPI basket. A selection of the most representative goods and services is made.

The absence of any one type of a particular item from the basket is not in itself flawed or incorrect. It is not possible to cover every variation of each item or every brand. A representative sample of certain items is priced on a monthly basis to reflect the overall change in all variations of such items. The item chosen for pricing purposes is deemed to be representative and the change in the price of the selected item is used as a proxy for the general price movement under each heading. For example in the case of *fresh fish* four items (1) Salmon, (2) Fillet of Whiting, (3) Cod Fillets, (4) Fillet of Plaice have been selected as the most popular items in terms of consumption and as representative of all the different varieties that could be classified under that heading.

Details

Each month the CSO issues the Consumer Price Index release. This shows the monthly and annual changes in prices. These are the figures that are normally referred to by the media. While the overall index is important the breakdown of the consumer basket into 12 main COICOP groups allows for the determination, at a more detailed level, of the causes of such changes and also allows for the estimation of the contribution of each group and/or item to the overall change in prices in the month and year. The index is split into 12 main COICOP groups as follows; each of which has its own individual set of price indices, i.e. inflation

- 01 Food & Non Alcoholic Beverages
- 02 Alcoholic Beverages & Tobacco
- 03 Clothing & Footwear
- 04 Housing, Water, Electricity, Gas and Other Fuels
- 05 Furnishings, Household Equipment and Routine Household Maintenance
- 06 Health
- 07 Transport
- 08 Communications
- 09 Recreation & Culture
- 10 Education
- 11 Restaurants & Hotels
- 12 Miscellaneous Goods & Services

Note: Alcoholic Beverages consumed in/on licensed premises are included in 11 Restaurants & Hotels

More detailed indices at subgroup level such as for beef, electricity, toilet accessories, etc. are also produced on request from time to time. From September 1999 a new separate release with selected detailed sub indices is published in conjunction with the main release. Both releases are available on the CSO website (www.cso.ie).

Logistics

Each month approximately 200 specialist CSO pricers collect approximately 50,000 price quotations from shops, department stores, supermarkets, petrol stations, etc. in 86 cities, towns and villages throughout Ireland. Another 3,000 prices are collected directly on a monthly basis in postal surveys of major utilities such as electricity, gas and others such as doctors, transport companies, etc.

Each month approximately 48,000 to 49,000 prices are matched with prices from the previous month. The country is split into 5 areas for which area average prices are produced. These area average prices are then combined to give an *overall weighted average price* referred to as the National Average Price. The country is split into 5 'areas' distinct town size categories. Area A covers Dublin Metropolitan Region, area B covers the 4 regional cities of Cork, Limerick, Galway and Waterford, area C covers towns throughout Ireland with a population greater than 10,000, area D covers town between 5,000 and 9,999 and area E cover towns with less than 5,000.

For each individual item a number of price quotes are collected. For example in September 2002 a total of 758 price quotes covering the five different varieties of beef were collected. 133 price quotes for a tin of beans were collected. In Food alone approximately 21,500 prices are collected on a monthly basis.

Pricers are given a broad specification such as a tin of baked beans. They are free, initially, to select a particular size of tin and brand so long as it is popular and available. They have to price the same item month after month. In this way the many different choices made by consumers relating to brand, size and point of purchase are reflected.

Standards

The consumer price index is compiled to the highest international standards and is produced independently by the Central Statistics Office.

High Prices

A situation where the rate of inflation remains low but some prices rise at a much faster rate can cause confusion and disbelief. The CPI captures all price increases. The CSO has to take account of all consumer goods and services whose prices may change at varying rates, with some items falling in price, others increasing and others remaining static.

The price of a good or service may rise rapidly but this will only impact on the overall rate of inflation if its share of total overall consumer expenditure is significant. For example a 2% increase in the price of petrol has a greater effect than a 20% increase in the price of mayonnaise on the overall index.

Cost of Living

The CPI measures price change. It is specifically designed not to take into account changes made by households to their pattern of expenditure in response to changes in prices, incomes, family composition, tastes, consumer preferences or market conditions. Furthermore, payments such as income tax and social insurance contributions, which determine disposable income, are not covered. The CPI is a pure price index, not a cost of living index. To produce a cost of living index is a major and complex task. However, the most important factor determining changes in the cost of living is the extent to which consumer prices of goods and services vary. It is only this important aspect of the cost of living which is measured by the CPI.

Housing

The purchase of a house is an investment in a capital asset, purchased over a long period of time that usually appreciates in value. It does not form part of consumption. In 1997 the CSO released an information note looking at the issue of rising house prices and low inflation. House prices are excluded from the index. The CPI does however include the current costs of housing, such as mortgage interest costs. These costs reflect not only changes in interest rates but also the increasing size of the average mortgage. Measurement of the latter takes into account the trend in house prices and as a result these price trends are taken into account, indirectly, in the index.

Europe

Almost all countries produce a consumer price index to measure the change in the level of prices at a national level. The expenditure weights and the items included in the basket of goods and services reflect the prevailing consumer patterns of each individual country. In order to allow for international price comparisons, Eurostat, in conjunction with the member states of the EU has produced a harmonised index of consumer prices - HICP. It covers a range of goods and services for which the measurement of price change is harmonised. At present approximately 91% of the total CPI basket is included in the Harmonised Index. The HICP includes 606 of the 613 items in the CPI basket with the main difference being the treatment of mortgages and insurances. The consumer price index, however, remains the best measure for national purposes and is the official measure of consumer inflation.

Developments

The Central Statistics Office is concerned with ensuring that the Consumer Price Index remains an accurate measure of the rate of inflation. With this in mind we are continuously improving our methods, extending coverage and analysing data and changing market conditions.

Further Information

A detailed explanation of the compilation of the Index is contained in Consumer Price Index Introduction to Series December 2001=100 is available on request from the CSO or can be downloaded from the CSO website.

Information

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