



An Phríomh-Oifig Staidrimh
Central Statistics Office

information notice

Consumer Price Index

Introduction of the weighted average interest rate used in the compilation of the mortgage interest component of the CPI

Background

Mortgage interest was introduced as an item in the Consumer Price Index (CPI) basket of goods and services as part of the November 1975 rebase. The methodology used to compute the mortgage interest component of the CPI was based on the standard variable rate (SVR) of interest for existing customers only. Each lending institution supplied their advertised SVR as on the second Tuesday of each month to the Central Statistics Office (CSO). A weighted average SVR was computed by the CSO using market share data supplied by the Central Bank.

In the past number of years various types of mortgage products have become available to Irish residents to purchase their principal dwelling. Tracker, variable and fixed mortgages represented 51%, 32% and 17% of the residential mortgage market respectively in 2011 (source: Central Bank). Therefore, it was necessary to introduce a methodological change to the computation of the mortgage interest component of the CPI to more accurately reflect the current residential mortgage market.

Along with updating the expenditure weights and the basket of goods and services, methodological changes may be introduced, if necessary, in conjunction with a CPI rebase which is currently carried out by the CSO every five years. The December 2011 CPI rebase provided an opportunity to introduce a methodological change to the compilation of the mortgage interest component of the CPI.

New weighted average interest rate

Weighted average tracker, variable and fixed rates are supplied by each lending institution to the CSO (see interest rate definitions below). The interest rates are those associated with mortgages taken out by Irish residents to purchase their principal dwelling. Mortgages that are on the lending institution balance sheet and mortgages that are securitised are both included. The interest rates reported correspond to the rates as on the second Tuesday of the reference month.

The interest rates supplied by the lending institutions are combined by the CSO to produce an overall weighted average interest rate. The weights used by the CSO to compute the overall weighted average interest rate are updated on an annual basis each January using the latest available volumes data (both on balance sheet and securitised) reported by each lending institution to the Central Bank¹.

Implementation

It is standard practice not to revise the CPI for previous base periods following the introduction of any methodological change. Therefore, the CPI for previous base periods was not revised following the introduction of this methodological change to the computation of the mortgage interest component of the CPI. The new mortgage interest series (based on the weighted average tracker, standard and fixed rates) was linked onto the old mortgage interest series (based on the SVR) as part of the rebase.

In December 2011, both the SVR and the weighted average tracker, variable and fixed rates were supplied to the CSO by each of the lending institutions. The SVR was used to compute the mortgage interest component of the December 2011 CPI (base: December 2006=100). The weighted average tracker, variable and fixed rates supplied by each of the lending institutions for December 2011 and January 2012 were used to compute the mortgage interest component of the January 2012 CPI (base: December 2011=100). This follows the standard “matched basket” approach whereby a comparison is made between the same type of interest rate data over two consecutive months.

Therefore, the 1-month percentage change for January 2012 and onwards will depend on the weighted average tracker, variable and fixed rates only. The 12-month percentage changes calculated for January 2012 to December 2012 will be based partly on the SVR and partly on the weighted average tracker, variable and fixed rates.

Acknowledgements

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References

Interest rate definitions

The interest rate definitions correspond to the definitions used for the Central Banks Quarterly Analysis of Lending and Deposits (SQ1) return which is filled in by each lending institution on a quarterly basis.

Tracker Rate: Tracker rates are explicitly anchored to the ECB main refinancing rate, or any other policy rate set by the relevant monetary authority.

Variable Rate: Standard or Loan-to-Value (LTV) variable rates are those which the lending institution can change at any time and are not explicitly anchored to the ECB main refinancing rate, or any other policy rate set by the relevant monetary authority.

Fixed Rate: The fixed interest rate bands refer to the term over which the interest rate is fixed, i.e. not the term of the loan. The four fixed interest rate bands requested from the lending institutions are as follows:

- Fixed – up to 1 year
- Fixed – over 1 year and up to 3 years
- Fixed – over 3 years and up to 5 years
- Fixed – over 5 years

Furthermore, the fixed interest rate bands refer to the period of initial rate fixation, not the remaining or residual period for which the interest rate is fixed. For example, an interest rate was agreed on 1/1/2007. It was a 7-year fixed rate. The interest rate is due to be reset on 1/1/2014. This loan is reported in the “Fixed - over 5 years” band as the period of initial rate fixation was 7 years.

Data source for weights

¹ The Central Bank provides the CSO with the lending institutional level data behind Table A.18.1 and Table A.18.2 for Q3 each year.

Table A.18.1 *Credit Advanced to Irish Resident Private Households for House Purchase* provides information on the outstanding amounts on the lending institutions' balance sheet.

Table A.18.2 *Credit Advanced to Irish Resident Private Households for House Purchase - Securitised Loans Serviced by Irish Resident Credit Institutions* provides information on the outstanding amounts for securitised loans.

The following is a link to these two tables on the Central Banks website:

<http://www.centralbank.ie/polstats/stats/cmab/Pages/HouseholdCredit.aspx>

Enquiries to:

CSO, Skehard Road, Cork, Ireland
LoCall 1890 313 414 (ROI)
0870 876 0256 (UK/NI)
Tel: 021 453 5000
01 498 4000
Fax: 021 453 5433
E-mail: cpi@cs0.ie
Internet: <http://www.cs0.ie>

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