



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

# information notice

## The Consumer Price Index

### Definition

The Consumer Price Index (CPI) is designed to measure, in index form, the change in the average level of prices paid for consumer goods and services by all private and institutional 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 (CSO). 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 2011 equal to 100. It is compiled from prices collected over a period of more than one week, i.e. the Monday prior to the second Tuesday of the month up to and including the third Tuesday of the month.

### Coverage

The CPI is an average price 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. The expenditure of foreign tourist on holiday in Ireland is included since December 2001, while the expenditure of institutional households is included since January 2013.

### Base Period

The current monthly series was introduced in January 2012 to base December 2011 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 2009/2010 Household Budget Survey, price updated to December 2011, were introduced in January 2012. Market research and analysis on what items should be included under each heading took place throughout the year 2011. The weights of each item, therefore, reflect consumer patterns up to the beginning of 2012.

From January 2013 onwards, the expenditure weights at sub-index (i.e. 4-digit COICOP) level are updated annually using National Accounts 'Household Final Monetary Consumption Expenditure' (HFMCE) data for year t-2, price updated to t-1 as a primary source. The weights below sub-index (i.e. item weights) are recalculated on a pro rata basis using the proportions from the December 2011=100 rebase.

Every five years new items are introduced into the index. At present, the basket contains a total of 634 items. At the last rebasing (December 2011=100) many new items were added to the basket. These included Building

energy rating (BER) assessment fees, bundled telephone and internet services, computer repairs, etc.

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 or chilled fish, four items (1) fillet of whiting, (2) fillet of cod, (3) salmon, (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 Classification of Individual Consumption by Purpose (COICOP) divisions 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 division and/or item to the overall change in prices in the month and year. The index is split into 12 main COICOP divisions (each of which has its own individual set of price indices, i.e. inflation) as follows:

01	Food and Non-Alcoholic Beverages
02	Alcoholic Beverages and Tobacco
03	Clothing and 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 and Culture
10	Education
11	Restaurants and Hotels
12	Miscellaneous Goods and Services

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

### **Logistics**

Each month, approximately 80 price collectors collect approximately 50,000 price quotations directly from shops, department stores, supermarkets, petrol stations, etc. in 84 cities and towns throughout Ireland. Another 3,000 prices are collected centrally by the CSO on a monthly basis using postal, e-mail and telephone enquiries along with Internet price collection.

Each month, 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 (NAP). The 5 'areas' are derived from eight NUTS 3 regions. Area A covers the Dublin region; area B covers the South West region; area C covers the Border, Midland and West regions; area D covers the Mid West and Mid East regions; and area E covers the South East region. The 8 NUTS 3 regions have been combined into 5 'areas' for CPI administration purposes.

For each individual item a number of price quotations are collected. For example in January 2012, a total of 360 price quotations covering the three different varieties of Poultry were collected. In Food and Non-Alcoholic beverages alone, approximately 20,000 prices are collected on a monthly basis.

Price collectors 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 CPI is compiled to the highest international standards and is produced independently by the CSO.

### **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 changes. 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. 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 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 CPI 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, just under 93% of the total CPI basket is included in the HICP. The HICP includes 626 of the 634 items in the CPI basket with the main difference being the treatment of owner-occupied housing and insurances. The CPI, 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 CPI 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 CPI is contained in Consumer Price Index Introduction of Updated Series (Base: December 2011=100) which is available on the CSO website.

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