



An Phríomh-Oifig Staidrimh
Central Statistics Office

information notice

The Consumer Price Index

Annual Updating of CPI and HICP Weights

Background

The Commission Regulation (EU) No 1114/2010 on minimum standards for the quality of Harmonised Indices of Consumer Prices (HICP) weightings entered into force in 2011 and took effect with the January 2012 HICP.

The regulation was introduced to ensure a more harmonised compilation of HICP sub-index¹ weights across member states. The regulation obliges member states to update HICP sub-index weights on an annual basis and promotes the use of National Accounts data as the primary source for the weights. As a result of the regulation, the HICP sub-index weights in each member state will approximate as close as possible the consumers' expenditure pattern of the previous calendar year. Moreover, with the requirement of annual weighting updates, the HICP becomes a true annually chained Laspeyres-type price index.

The Central Statistics Office (CSO) has also applied this methodological improvement to the HICP to the Consumer Price Index (CPI).

National Accounts data

Each member state is required to compile National Accounts in accordance with the European System of Accounts (ESA 1995). Eurostat (the Statistical Office of the European Communities) uses National Accounts data from each member state in the EU to "weight" each member state in their calculation of euro area, EU and other HICP aggregates.

The National Accounts data that is used to compile the CPI and HICP sub-index weights is the *Household Final Monetary Consumption Expenditure* (HFMCE) data. HFMCE data covers the expenditure of Irish residents (both private households and residents in institutional households) and foreign tourists in Ireland only. The expenditure of Irish residents abroad is excluded. This is referred to as the Domestic Concept (i.e. expenditure within the domestic territory).

The expenditure of residents in institutional households had previously been excluded from the CPI and HICP. However, the expenditure of residents in institutional households falls under the population coverage of the CPI and HICP and is included in the HFMCE data. Therefore, the use of the HFMCE data as the primary data source ensures full population coverage for the CPI and HICP.

¹The HICP sub-index weights correspond to the Classification of Individual Consumption Adapted to the Needs of Harmonised Indices of Consumer Prices (COICOP/HICP) class (i.e. 4-digit level) weights

Annual updating of CPI and HICP weights

Sub-index weights

HFMCE data reflects consumers' expenditure pattern over one full calendar year. Ideally, for each year t , the sub-index weights used to compile the CPI and the HICP should reflect the consumers' expenditure pattern of the previous calendar year (i.e. January to December $t-1$). For example, for 2013, the sub-index weights ideally should reflect consumers' expenditure pattern from January to December 2012.

However, in member states at the time the sub-index weights are calculated for year t , the latest available HFMCE data usually refer to year $t-2$ which is preliminary at this stage. For example, when calculating the sub-index weights for 2013, the latest available data was preliminary 2011 HFMCE data.

Generally, at that stage, the HFMCE data in member states are sufficiently stable to enable them to be used as the primary source for the sub-index weights. The Household Budget Survey (HBS) and other data sources can be used to supplement the HFMCE data as necessary. The HFMCE data for year $t-2$ are then price updated to December $t-1$. For example, the 2011 HFMCE data was price updated to December 2012 price levels.

The weights below sub-index level (i.e. item weights) are not required to be updated more frequently than every 7 years.

The CPI and HICP sub-index weights are updated using the HFMCE data as the primary data source. As mortgage interest and motor tax, which are included in the CPI basket only, and are not covered by the HFMCE data, the corresponding CPI sub-index weights are compiled from Household Budget Survey (HBS) data and price updated to the previous year.

Item weights

The sample of items in the CPI and HICP consists of 634 representative items which were predominantly selected as part of the December 2011 rebase. The exception was two new items, water supply and sewage collection, which were introduced in January 2015. When the new CPI and HICP sub-index weights are introduced annually the item weights are re-calculated. The item weights under each CPI and HICP sub-index are re-calculated on a pro rata basis using the proportions from the December 2011 rebase. They will be reviewed again as part of the December 2016 rebase, when items will be added to and removed from the CPI and HICP baskets and their representative share in the CPI and HICP baskets will be updated accordingly.

Chain-linking the CPI and HICP indices

It is necessary to chain link the CPI/HICP indices every year, as a result of annually updating the sub-index weights.

Each year, separate indices, based on the most recent reference period of December, are calculated initially. For example, indices from January 2012 to December 2012 are calculated with a reference period of December 2011=100. For 2013, indices from January 2013 to December 2013 are calculated with a reference period of December 2012=100. Indices will then be chain linked together once a year when the sub-index weights are updated to produce indices covering several years. The CPI has been re-referenced every 5 years since the November 1996 rebase and is currently published with a reference period of December 2011=100.

Each year's HICPs will also be chain linked together once a year when the HICP sub-index weights are updated, starting from December 2011, to produce HICPs covering several years. The HICPs will then be re-referenced to 2015=100 as the HICP is currently published with a reference period of 2015=100.

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