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HICPs: An Update on some Current Issues

Background Information related to Paper 14

Jean-Claude Roman
(EUROSTAT)

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INTRODUCTION

The HICPs are widely recognised as a key achievement of the European Statistical System. They are used, in particular, for the assessment of economic convergence by the European Commission and to inform monetary policy decisions for the euro-zone by the European Central Bank (ECB).

This document gives a summary of the current position on some important HICP issues. It is based on a paper presented to the EU's Statistical Programme Committee in May 2005 (REF CPS 2005/56/17). The first part of the document concentrates on quality adjustment and sampling, which is viewed as the most serious source of non-comparability between HICPs. The second part of the document briefly reviews some issues concerning the production of the HICPs, some other methodological issues and, finally, some issues related to documentation and communication.

1. QUALITY ADJUSTMENT AND SAMPLING

1.1 Action Plan

The harmonisation of the approaches used in the Member States for quality adjustment and sampling remains one of the highest priorities for the HICPs. The quality adjustment and sampling practices used at present in the Member States differ widely. This may give rise to significant non-comparability and may also call into question the reliability of the euro-zone HICP.

Eurostat and the HICP Working Group have long agreed that quality adjustment is the most serious source of non-comparability between HICPs and that progress on harmonisation is essential. In September 2001 Eurostat agreed an Action Plan on quality adjustment and sampling with the EU Member States, aiming at both short-term and longer-term results. The Action Plan described a work programme under eight headings, to be completed over the following two to three years.

The work completed since late 2001 has seen progress made on all parts of the Action Plan although with some delays. There have been two main achievements, on the so-called case-by-case approach and on the further specification of the definition and the purposes of the HICP.

On the case-by-case approach, task forces have agreed recommendations on quality adjustment and sampling methods for four groups of products (books, recorded media, clothing and footwear, and cars) and produced draft final reports for two others (PCs and telecoms). The recommendations for books and recorded media, clothing and footwear have been further developed and reformulated as new HICP standards. These were approved unanimously by the HICP Working Group in June 2005.

On the work to further specify the definition and purposes of the HICP, Eurostat has developed a proposal to amend the existing HICP legal text concerning quality adjustment and sampling (Commission Regulation 1749/96) and so clarify the basic approach to compiling HICPs. The proposal also opens the way for the implementation of the new case-

by-case standards in the Member States, such as those for books and recorded media and clothing and footwear. The implications for Member States' existing CPI practices are potentially wide-ranging and the proposal has generated extensive debate within the HICP Working Group. The final proposal will be put to the Member States for approval in the coming months.

1.2 Future work

Eurostat considers it essential to complete the work underway on quality adjustment and sampling, to broaden it, and to be able to demonstrate in the short-term that improved methods on quality adjustment and sampling are being implemented in the Member States.

The highest priority is to agree with the Member States on the initial sets of case-by-case standards (books, recorded media, clothing and footwear, and cars) and on the proposals to amend Regulation 1749/96 in order to open the way for their implementation.

In parallel, a task force is developing a more detailed version of the classification "COICOP/HICP", with the aim of ultimately harmonising aggregation and replacement practices. It will continue its work and is expected to deliver its first results in 2005.

It will also be important to produce, in co-operation with the Member States, a second set of case-by-case standards – for consumer durables, computers and telecommunications – based on the work already carried out by the Task Forces. The second set of case-by-case standards should be developed during the second half of 2005 and 2006.

Eurostat intends to coordinate its work with that of the proposed Centre of Excellence (CENEX) on hedonics and quality adjustment. The CENEX is being set-up in order to both develop further practical advice on the implementation of recommended methods and to develop recommendations for further groups of products.

Eurostat will also propose to the HICP Working Group the next groups of products to be studied using the case-by-case approach. These might include, for example, rents, energy products, medical services or transport services.

2 SOME OTHER HICP ISSUES

2.1 Production of the HICPs

Maintaining the level of the production operations and ensuring the release of data on schedule is the absolute highest priority for the HICPs.

The coverage of the **MUICP flash estimate** (the flash HICP estimate for the Monetary Union, that is the euro-zone) has recently been extended and now includes data for Spain. Further extensions are expected during 2005 or 2006. According to a Reuters poll of economists, the HICP flash estimate is considered the single most important monthly statistic released by Eurostat.

The publication of the full **HICP release**, on around the 17th of each month, remains a major achievement. With the continued cooperation of the Member States, the HICPs are currently released substantially in advance of the legal requirement and some further acceleration of the release schedule is under discussion.

2.2 *HICP methodology*

After assessing the outcome of the first phases of the ongoing pilot work on **Owner Occupied Housing**, Eurostat has adapted the approach and will enlarge the country coverage for the next stage of the pilot work. The aim is to include 10-12 Member States in the next stage of the pilot work, and to compile price indices covering all dwellings rather than focussing on newly-built dwellings. The original aim of delivering price indices with full EU coverage by 2006 will not be achieved, but, provided the pilot work is successful, a provisional dwellings price index for the euro-zone as a whole may be available by the end of 2006.

In cooperation with the European Central Bank, and supported by the Commission's Directorate-General for Economic and Financial Affairs, the methodology and the initial coverage have been agreed for an **HICP at constant tax rates**. An EU-wide pilot is currently being launched. Some further work to develop proposals on the concept of a HICP for **administered prices** is being taken-up by the ECB in the first instance.

Progress has been made recently regarding the **temporal coverage of HICP price collection periods, the rebasing of the HICP, the revision of HICP rounding rules and the treatment of seasonal items**. Concerning the first of these issues, a proposal for a new regulation narrowly failed to gain the approval of the Member States in May 2005, but the proposal will be taken forward in the coming months. Concerning the second issue, the HICP index reference period will shortly move to 2005=100. On HICP rounding rules, Eurostat plans to begin releasing index levels for EU and euro-zone aggregates at 2 decimal places. Concerning the treatment of seasonal items, Eurostat considers that significant progress has been made and at agreement during 2005.

The long-standing aim of developing further **HICP sampling standards** may be taken up during 2006.

2.3 *Documentation and communication*

Concerning the **documentation of national HICP methods**, some limited collection and dissemination of documentation is planned for 2005 using the IMF's existing SDDS metadata for consumer price indices. Concerning the documentation of HICPs more generally, a range of metadata is now available for users (the HICP short guide for users, the HICP compendium, HICP SDDS documentation and FAQs) and, in due course, this will be followed by the consolidated HICP legal framework and the HICP manual.

The introduction of the euro saw a gap opening-up between the official consumer price indices and surveys of **consumers' perceptions** of inflation. One way to address this issue is to set-up an HICP for **consumers' regular purchases**, since regular purchases, for which prices have increased more than the average in recent years, may be important for explaining perceptions. This development is under discussion.

A proposal for the **consolidation of the HICP legal framework** (i.e. consolidating thirteen existing legal texts into a single new legal text) was developed at the end of 2004. During 2005 this text may be released to HICP users, but the formal legal consolidation as such will not be launched.

A draft **HICP manual** for users and producers was delivered to Eurostat in May 2005. Some further editorial work will be necessary before the manual can be publicly released.

Finally, Eurostat will further develop its cooperation with **key users** and with the EU Member States to ensure the future success of the HICP. In particular, Eurostat intends to reflect on how to better exploit in the short term the existing **legal framework** for the HICP and reconsider in the medium term the HICP legal framework with a view to better meeting the needs of those users.