

IMPROVEMENT OF OMAN CONSUMER PRICE INDEX

10-13 NOVEMBER 2012



MUSCAT, OMAN

HICP and other indices

Presentation by Dr. Cem BAŞ, TURKSTAT

The HICP in non-EU Member Country

HICP computation within line with the Commission Regulation ((EC) No 2494/95)

Aim is to minimize the differences of methods used in Member Countries

- In cooperation with EUROSTAT, all the standards and the rules of the HICP are followed and required adaptation procedures for full compliance with Acquis Communautaire are carried out
 - Search for newly significant goods and services
 - Extension of coverage and the study on inclusion of newly significant goods and services into the weighting structure
-

The HICP in non-EU Member Country

- Improvement of methods for housing cost, financial cost in banking sector, fire and car insurance, second hand cars, package tours and stock exchange service cost
 - Improvement of methods for quality adjustment
 - Determination of total consumption expenditures of institutional population and of the foreign tourists in Turkey
 - “More than one part in a thousand of the total expenditure” and the “identification of newly significant goods and services” criteria are provided. The weighting structure is updated using December prices and the resulted index is linked to the old index series.
-

The HICP in non-EU Member Country

- Some of the sub-groups were not covered in the previous HICP. According to the consumption expenditure values, these sub-groups are included in the coverage of the HICP.
 - Data and information about the system of housing cost, financial cost in banking sector, fire and car insurance, second hand cars, package tours and stock exchange service cost are provided by the responsible committees.
 - Methods for a small size survey on the expenditures of institutional population and of the foreign tourists in Turkey are improved.
 - Evaluation of yearly chained HICP are completed
 - The staff gained insight knowledge about implications and new developments in member and candidate countries through study visits, working parties and training courses
-

The HICP in non-EU Member Country

- The HICP (Harmonized Index of Consumer Prices) measures changes in the level of retail prices of goods and services in terms of the structure of the expenditure of consumers (domestic and foreign) on items intended for final consumption in the territory of Turkey.
 - It is an annually chain-linked, Laspeyres-type index. The HICP covers all categories and sub-categories of the COICOP/HICP (classification of individual consumption by purpose, adapted to the needs of the HICP) that account for more than one part in a thousand (i.e. 12 divisions, 44 groups and 94 classes).
-

The HICP in non-EU Member Country

There are only a few differences between the HICP and the national CPI:

- The HICP does not cover games of chance and obligatory earthquake insurance, while the national CPI covers games of chance and obligatory earthquake insurance.
 - In CPI, variable weights are used for the seasonal goods and services but in HICP, class-confined seasonal weight approached is used.
-

The HICP in non-EU Member Country

Population coverage:

- The HICP covers all private households in the economic territory of the country irrespective of income, nationality, and social or residential status, including persons living in institutional households. The expenditure of foreigners is included in the HICP as well. Data are estimated from Household Budget Survey (HBS), tourism survey and special survey for institutional population.
-

The HICP in non-EU Member Country

Geographical coverage:

- The HICP covers the entire area of the country. There are no overseas territories.
 - For the collection of prices, the country is divided into 26 parts (regions). Within each region, all of the urban centers are selected and the areas around these are purposively selected.
-

The HICP-Constant Tax

The concepts were clarified – in particular that the HICP-CT is defined as an index where tax rates are kept constant in the observation period compared with the reference period. The difference between the HICP & the HICP – CT indicates the impact on inflation of changes in indirect taxes.

The HICP-Constant Tax

The HICP is defined as a Laspeyres type index (Art. 9, Commission Regulation 2494/95), measuring the price change of a basket of goods and services which households acquire for consumption. HICP-CT also uses the same approach. One basic assumption of the HICP-CT is that tax changes are passed on instantaneously and fully. In special cases, such as for cigarettes in several countries, stocks with 'pre-change' tax stamps are available on the market for some time after the tax change come into force.

The HICP-Constant Tax

HICP-CT will also be produced for the following special aggregates and sent the EUROSTAT regularly:

HICP-CT Goods (ct_goods)

HICP-CT Un-processed food (ct_foodup)

HICP-CT Processed food (ct_foodp)

HICP-CP Non-energy industrial goods
(ct_igoodsxe)

HICP-CT Energy (ct_e)

HICP-CT Services (ct_serv)

The HICP-Administered Prices

For HICP-AP, **Fully administered prices** cover the prices of goods and services directly set by the government. For example, the government may choose to increase local public transportation charges at regular intervals. Other examples may include education fees, theatre tickets, waste collection, childcare, and fees for administrative documents.

The HICP-Administered Prices

Mainly administered prices cover the prices of goods and services on which the government including any national regulator has a significant influence. For example, these may include prices which require approval/permission by national regulatory authorities for their change. The influence of the national regulator's decisions could be direct on retail prices or indirect via wholesale prices. However, the regulator must have a significant influence on the consumer price. All of the backward series of these indices are calculated.

The HICP-Administered Prices

For the HICP-AP, backward series are calculated based on these 4-digit groups. The results of the HICP-AP and the sub-groups are shown below.

Fully		Mainly
0441		0611
0451		0630
0452		0621 3
0731		
0734		
0810		

Producer Price Index

The PPI measures changes in prices that manufacturers and wholesalers pay for goods during various stages of production.

The PPI looks at three areas of production:

1. Crude Goods - raw materials entering the market for the first time.
 2. Intermediate Goods - commodities that have undergone transitional processing before becoming the final product.
 3. Finished Goods - goods that are ready for the marketplace.
-

Producer Price Index

- PPI is the first major inflationary number that comes out during the month.
 - PPI is the indicator of overall price movement at the producer level. PPI captures price movement prior to the retail level. It may foreshadow subsequent price changes for business and consumers.
 - Any sign of inflation here may lead to inflationary pressures at the retail level. If businesses pay more for their goods, they are more likely to pass along some of their cost to the consumer.
-

Producer Price Index

- ① Uses
 - National Accounts – real GDP
 - Contract indexation
 - Analysis of inflationary trends
 - Economic forecasting
-

Producer Price Index

- ◎ PPI Output indexes
 - Primary products
 - Manufactured goods
 - Services
 - etc

 - ◎ PPI Input indexes
 - Materials
 - Fuels and electricity
 - Transport and communication
 - etc
-

Producer Price Index

- ⊙ Expenditure weights
 - National Accounts
 - Annual Enterprise Surveys
 - ⊙ Collection
 - Arithmetic mean of 5th, 15th and 25th day prices
 - Taxes are excluded
 - Base year = 2003
 - ⊙ Laspeyres index formula
 - ⊙ Monthly release
-

Core Inflation

Countries that adopt inflation targeting require a credible, timely measure of inflation to target: usually CPI.

Some components of the CPI, including food and energy, are particularly volatile and usually excluded. So too may be indirect taxes and interest (mortgage) payments.

The resulting “core inflation” measure is used for inflation targeting, though it is not always clear which components should be excluded.

Core Inflation

There are many approaches, ways of implementing them, and methods for judging which is best.

- Empirical research shows that different measures of core inflation yield different results, that is, that choice of measure matters.
 - Further, that different approaches to the choice as to which is best yield different results
 - Even for the same approach to choice, the preferred measure may differ across countries, and even within a country for different time periods.
-

Core Inflation

- Exclusion-based methods
 - Product groups
 - Indirect taxes
 - One-off shocks
 - Domestically generated inflation
 - Imputation methods

- Trend estimates

- Limited influence estimators
 - Median
 - Trimmed means—symmetric and asymmetric

- **Reweighting the CPI**
 - Persistence weights
 - Volatility weights
 - First principal component

- **Economic models**

Core Inflation

- Exclusion-based methods exclude component price indices of a CPI that are considered to be particularly volatile.
 - Easy to understand, timely, and transparent, in that the user can replicate the measure.
 - Exclusion-based methods are often used by countries when they first instigate inflation targets.
 - A common approach is simply to exclude certain product groups. Usual exclusions are food and energy (F&E) argued on the basis of their undue volatility
 - Standard exclusions used by a number of countries: has the advantage that the authorities are less likely to be perceived to be manipulating the targeting.
-

Core Inflation

Group	Coverage
A	Excluding seasonal products
B	Excluding unprocessed food products
C	Excluding energy
D	(B) and (C)
E	(C) and excluding alcoholic beverages and tobacco products
F	(E) and excluding the products having administrated prices, and exc.indirect taxes
G	(F) and (B)
H	(D) and excluding alcoholic beverages, tobacco products and gold
I	(C) and excluding food and non-alcoholic beverages, alcoholic beverages and tobacco products and gold

Thank you...
