

Box 4

Trends in euro area services price developments

Services prices form one of the largest single components of the Harmonised Index of Consumer Prices (HICP), as is shown in the breakdown in Table 5 of this issue of the ECB Monthly Bulletin. Its weight in the overall HICP has risen from 34.0% in 1996 to 37.3% in 2000. This increase is partly a result of the extension of the coverage of the HICP in 2000, which particularly focuses on services, but it also reflects the fact that the share of services in private consumption is increasing over time. In 2001 the HICP will be extended to cover further health and social protection services. In the light of the high weight of services in the overall HICP and in order to further facilitate the analysis of consumer price developments in the euro area, the ECB breaks down services prices into five components (the figures in brackets indicate the weight of the components in overall HICP services prices): housing (27.3%); recreation and personal services (36.2%); transportation (17.1%); communication (6%); and miscellaneous services (13.4%). These components are based on detailed sub-indices which are relatively homogenous in terms of both the use of the services and, to some extent, the determinants of their price developments. For analytical purposes, the housing services component can be further divided into rents and other housing services prices, while recreation and personal services can be broken down into package holidays and accommodation services prices on the one hand, and prices for other recreation and personal services on the other.

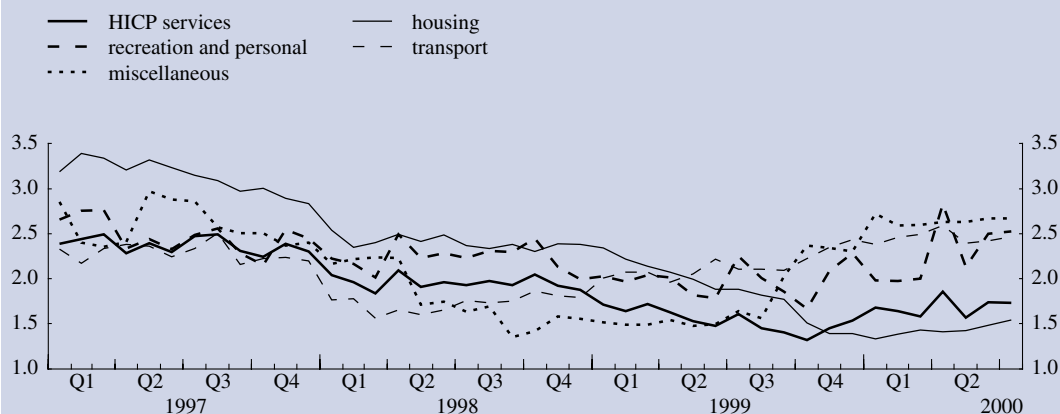
Patterns behind the developments in the HICP services component

The annual rate of increase in HICP services prices followed a downward trend from mid-1997 to late 1999. This reflects the general disinflationary developments in the euro area and in particular, as a result of the high wage content of services prices, the downward trend in wage growth in the euro area up to mid-1998. The downward trend was visible in most services components, but most notably in housing services prices. The only exception to the pattern of a fall in the annual rate of increase between mid-1997 and late 1999 was the year-on-year increase in transportation services prices, which had been on a broad upward trend since March 1998 (see Chart A). In late 1999 and early 2000, the annual rate of increase in services prices rose slightly, but has been relatively stable since then.

The breakdown of *housing services prices* shows that in the first half of 2000 the annual rate of increase in other housing costs rose, while the annual rate of increase in rents remained stable. The upward trend in other housing services prices reflects developments in most of the labour-intensive sub-indices of this component (inter alia repair, maintenance and domestic services related to housing), as well as housing insurance prices,

Chart A: Developments in HICP services components in the euro area

(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

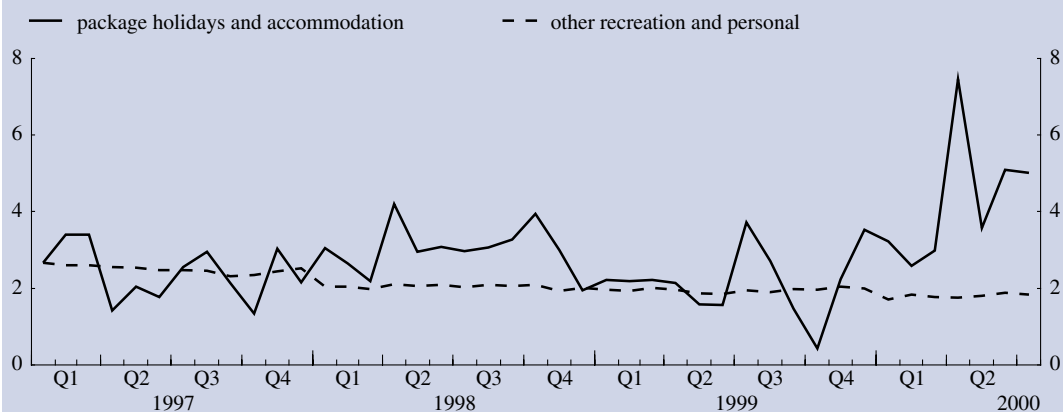
Note: For reasons of scaling, communication services prices are not shown here, but in a separate chart below.

reflecting general upward pressure on these prices. This could be linked to the fact that wage growth in the euro area has risen somewhat since mid-1998.

The year-on-year rate of increase in *recreation and personal services prices* is very volatile owing to developments in package holidays and accommodation services prices (see Chart B). Despite the relatively low weight (7%) of these in HICP services prices, package holidays and accommodation price developments are often the cause of short-term volatility in developments in the total services component of the HICP. The upward trend in the annual rate of increase in recreation and personal services prices since late 1999 is the result of developments in package holidays and accommodation prices. By contrast, the annual rate of increase in other recreation and personal services prices (comprising the cleaning, repair and maintenance of leisure articles as well as cultural, dining and grooming services) fell at the end of 1999, but has remained relatively stable thus far in 2000, reflecting the fact that, in general, there is no clear upward pressure discernible in the sub-indices comprising this component.

Chart B: Developments in recreation and personal services prices in the euro area

(annual percentage changes; monthly data)



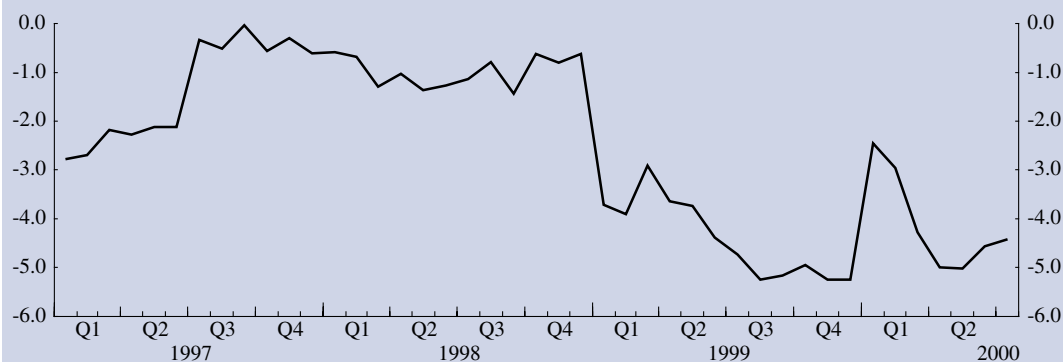
Sources: Eurostat and ECB calculations.

Transportation services prices comprise various passenger transport, maintenance and transport insurance prices. The annual rate of increase in several passenger transport services prices has been on a broad upward trend since late 1999, possibly reflecting the impact of the rise in energy prices.

Communication services prices are heavily affected by developments in telecommunication prices (this sub-index accounts for almost 90% of the weights in this component), reflecting technological progress and

Chart C: Developments in HICP communication prices in the euro area

(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

deregulation; however, postal services prices have also been affected by the deregulation process. The year-on-year rate of change has, therefore, been negative for most of the time since 1997, and particularly in 1999 and the second quarter of 2000 this component had a downward effect on developments in the HICP services component (see Chart C).

By contrast, *miscellaneous services prices* have been following an upward trend since the third quarter of 1999. However, from 1997 to the end of 1999 this component comprised only three sub-indices (education, other financial services and other services n.e.c.), but was supplemented with a number of further sub-indices in January 2000 (medical, health insurance and social protection-related services). It is, therefore, too early to assess the developments in this component. Coverage will be further expanded in January 2001. For an analysis of developments in this component it should be taken into account that several of the items covered are partly of an administered nature.