

Box 2

Changes in the coverage and methods for computation of the Harmonised Index of Consumer Prices

In order to further enhance the coverage and harmonisation of consumer price measurement in the European Union, some statistical changes have been made to the Harmonised Index of Consumer Prices (HICP), starting with the results for January 2001. The changes concern a further extension of the coverage of consumption expenditure and the implementation of two specific rules for price measurement. In addition, with its adoption of the single currency on 1 January 2001, Greece has from that month onwards been included in the published euro area HICP. The country weights for calculating the euro area index have also been revised. The statistical break in the euro area HICP series resulting from these changes will have an impact on year-on-year changes in the course of 2001. From January 2002 onwards – when the extended HICP will be available for a 12-month period – the distortion will disappear completely.

Extended product coverage of the HICP

With effect from January 2001, the product coverage of the HICP has been extended to household consumption expenditure on hospital services, social services within the home, retirement homes and residences for the disabled. The extension of coverage was agreed in 1998 and has been implemented in two steps. In January 2000, as the first step, the product coverage of the HICP was extended mainly in the fields of health and education (for further information, see Box 3 in the March 2000 issue of the Monthly Bulletin). The extension introduced in January 2001, i.e. as the second step, added approximately 1½% of consumption expenditure to overall HICP coverage for the euro area. The impact of this on the overall inflation rate for the euro area in 2001 is expected to be small. The enlargement of the coverage of health and education items in 2000, when the weight of the extension of coverage was greater (approximately 3 to 4%), had only a small or negligible impact on the year-on-year changes in overall euro area HICP.

European Commission Regulations affecting the HICP

Two new European Commission Regulations have come into force which further harmonise the methods for price measurement in the HICP. The changes concern only those Member States employing HICP methods which deviate from the new rules. The first Commission Regulation¹ concerns the timing for entering purchaser prices into the HICP. Price changes for goods are to be reflected in the index at the time at which the price change is observed. For services the change is to be reflected at the time at which consumption can commence, which could be a certain period after a new price is first observed. The latter method could have an impact with regard to certain services, such as package holidays, where there may be a considerable difference between the time of purchase and the time of consumption. For most other services the impact is likely to be negligible. The second Commission Regulation² makes it clear that price reductions – and sales prices in particular – are to be reflected in the HICP. The change must be implemented by Member States either in January 2001 or in January 2002. Wherever these new Regulations require changes to existing practices, they may affect the short-term dynamics (e.g. the seasonal pattern) of the index, but they are not expected to have a significant effect on average annual rates of change.

The inclusion of Greece in the euro area HICP and new country weights for its calculation

With the publication of January 2001 data, Greece has for the first time been included in the euro area overall HICP and its breakdown (see Table 4.1 in the “Euro area statistics” section of the Monthly Bulletin). For analytical reasons, Eurostat also provides a series which includes Greece from 1995. Reference is made to the latter series in the “Price developments” section of the Monthly Bulletin. Since 1996 the difference between

¹ Commission Regulation (EC) No. 2601/2000 of 17 November 2000.

² Commission Regulation (EC) No. 2602/2000 of 17 November 2000.

the annual average inflation rates of the index including and excluding Greece has been very small and has ranged between zero and one-tenth of a percentage point. These small differences result from the convergence of Greek inflation rates in the period concerned, combined with the weight of Greece of 2.4% in the euro area HICP.

Finally, the regular annual update of the country weights that are used to calculate the euro area HICP has led to larger changes than normal, because they are, for the first time, based on ESA 95 methodology for the definition of household final monetary consumption expenditure. The new weights are used for results from January 2001 whilst the previous weights have not been revised. Though changes for some euro area countries are considerable, the effect of the new country weights on the overall HICP in January 2001 was, according to Eurostat, within the rounding margin.