

Box 4

Implementation of additional harmonisation rules for the HICP in January 2002

With the release of the January 2002 data, Eurostat and the National Statistical Institutes have implemented additional harmonisation rules for the Harmonised Index of Consumer Prices (HICP). The modifications result from the implementation of three Commission Regulations on the treatment of price reductions (e.g. due to seasonal sales) in the national indices, on further harmonisation of the coverage of services prices, and on the treatment of revisions in the HICP. This box gives a short description of these changes (focusing on the first one) and also reviews the annual changes in the weighting scheme for the HICP, which are made in January.

Harmonisation of the treatment of price reductions

HICPs measure actual purchase prices. In order to follow this general principle, price reductions for goods and services (e.g. during seasonal sales periods) should be reflected in the HICP indices. Most EU Member States have always taken account of such price reductions, and the introduction of this practice in the HICP for Spain and Italy in January 2002 represents the last step of this harmonisation process. Portugal included these price reductions in January 1999, and Luxembourg and Belgium in January 2000 and 2001 respectively. When Member States introduce price reductions in the index, they are also required to revise HICP data for the previous 12 months in order to avoid a distortion of the annual rate of change.

Reduced prices are relevant for all months of the year, but particularly for the periods from January to February and from July to August due to the winter and summer sales. The impact of sales prices on the HICP index can vary across Member States depending not only on the nature and timing of price reductions, but also on the HICP data collection periods within the month, which are still not fully harmonised across the European Union. Data collection usually takes place over specific days or weeks within the month. When a special sales price period within a month is not covered by the price collection period, sales prices may not be covered, or may be only partially covered, in the index.

The impact on euro area annual HICP inflation rates from the introduction of price reductions in Spain and Italy should be minor. However, due to the revision of data for the year 2001 and the consequent statistical break between 2000 and 2001, the year-on-year rates of change in non-energy industrial goods prices, in particular, have been somewhat distorted in 2001. Reflecting this, a downward revision of the euro area annual average inflation rate for 2001, from 2.6% to 2.5%, is reported. In addition, the introduction of sales prices may change

the monthly variations and seasonal pattern of the index. Consequently, it may become more difficult to calculate seasonally adjusted indices.

Further harmonisation of the coverage of services prices

The treatment of services charges expressed as a proportion of the transaction value has been harmonised with effect from January 2002. These prices concern, in particular, services provided by housing agents for rental accommodation, financial services and legal or administrative services. For instance, the fee charged by a housing agent is usually in direct proportion to the rent. On account of the small weights of these services in total household consumption, the effect of this change on the euro area overall index remains marginal.

A harmonised revision policy of the HICP

A third regulation concerning the harmonised revision policy for the HICP took effect as of January 2002. It states, in particular, that HICPs are to be revised when new or improved information is provided or methodological changes are made. The regulation also stipulates that any revision of national HICPs must be co-ordinated by Eurostat. An exception is made for mistakes which must be corrected without unnecessary delay. This regulation more or less confirms practices already applied in the past. However, this is the first macroeconomic statistical area in which a common revision policy for EU Member States has been agreed and implemented.

Updating of the weighting pattern for 2002

As occurs every year, the item and country weights of the euro area HICP were revised with the release of January 2002 data. The purpose of this practice is to maintain the representativity of the index in terms of consumer expenditure and country shares. When updating the item weights in the national HICPs, the national practices differ to a certain degree. Roughly half the euro area countries carry out a comprehensive revision of all item weights of the index at annual intervals, whereas some countries follow the existing HICP minimum standard, which stipulates that the item weights must have a reference period of not more than seven years prior to the current year. These Member States are required to update item weights more frequently where significant shifts in the consumption pattern are evident.

The annual revisions of item weights in the HICP do not just reflect changes in consumption patterns. A price update of the weights is also carried out based on the relative price movements between individual items and item groups observed over the previous year. From 2001 to 2002, the changes in the item weights of the euro area HICP were relatively minor (see table).

Item weights in 2001 and 2002 of the euro area HICP

(percentages)

| | 2001 | 2002 |
|--|-------|-------|
| Harmonised Index of Consumer Prices (HICP) and its components | | |
| Overall index | 100.0 | 100.0 |
| <i>of which:</i> | | |
| Goods | 61.5 | 61.1 |
| Food | 20.3 | 20.4 |
| Processed food | 12.3 | 12.3 |
| Unprocessed food | 8.0 | 8.1 |
| Industrial goods | 41.2 | 40.7 |
| Non-energy industrial goods | 31.8 | 32.0 |
| Energy | 9.5 | 8.7 |
| Services | 38.5 | 38.9 |

Source: Eurostat.

Note: Weights may not add up due to rounding.