

Box 4

Revisions of consumer expenditure weights in the HICP

HICP data for the euro area are calculated as a weighted average of price changes for individual product groups covered in the national HICP baskets. To ensure that the HICP is representative of consumer spending, the product and country weights used to compile the euro area HICP are updated annually. Changes in the national product weights reflect, for example, the substitution process due to changes in relative prices and the increasing market penetration of new goods and services. Changes in the country weights reflect different levels of consumption growth across euro area countries. This box provides information on the European requirements for HICP weights and the practices in the national HICPs.

European requirements

The requirements for HICP weights are defined in two EC regulations, which set the minimum standards at the overall index level.¹ They stipulate that product weights in HICPs should be updated at one to five-yearly intervals. In addition, annual adjustments to “critical” product weights must be made for particularly significant changes in the consumption pattern. “Critical” products generally refer to items which are subject to market conditions and technologies that change rapidly. Furthermore, minimum standards have been set for the timely introduction of new products into the HICP. In recent years, the latter two rules have been used to adjust HICP coverage for the increasing market relevance of consumer goods and services related to information technology.

Data sources and weight update practices

Euro area product weights are compiled from national product weights and are published annually with the release of the January data. The main sources of the national product weights are the Household Budget Surveys (HBS) and the annual national accounts estimates for consumption expenditure.

HBS are the source of very detailed information on household expenditure. All EU Member States have to carry out an HBS at least every five years, although some countries conduct surveys at higher frequency. All countries publish national accounts results annually, but the information is less detailed. Both the frequency and detail of the information on consumption expenditure are important for the quality of the consumer price index. According to the available information, as shown in the table, six euro area countries with a weight of 49.3% in the euro area HICP revise index weights every five years. The other countries use one to three-year intervals. However, given the requirement to update “critical” product weights more frequently than at five-year intervals, and given that not all detailed information which is required for a full weight revision may be available annually, the practices of euro area countries are less divergent than it appears at first glance. At present, all national HICP weights are based on expenditure surveys or national accounts dated from 1999 to 2001, reflecting also that there is usually a time-lag of between one and two years until final weight estimates can be implemented into HICP calculations.

Weight reference periods¹⁾

	In Jan. 2003	Next expected
BE	1999 ²⁾	2002
DE	2000	2005
GR	2000	2004-05
ES	1999-2001	2004-06
FR	2001	2002
IE	2001	2006
IT	2001	2002
LU	2000	2001
NL	2000	2001
AT	2000	2005
PT	2000	to be decided
FI	2000	2004-05

Sources: National Statistical Institutes and Eurostat.

1) The years for complete weight update revisions are shown in the table. For HICPs, a review of “critical” product weights has to be carried out each year.

2) 2000 for high-tech products.

1 Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonized indices of consumer prices and Commission Regulation (EC) No 2454/97 of 10 December 1997 laying down detailed rules for the implementation of Council Regulation (EC) No 2494/95 as regards minimum standards for the quality of HICP weighting.

Revisions in 2003

As happens every year, the product and country weights of the euro area HICP were revised with Eurostat's release of January 2003 data. Besides the countries using partial or full annual weight revision frequencies, Germany, the Netherlands and Portugal moved from the weight reference period 1995 to the new basis 2000. According to the estimate by the German National Statistical Institute, the change in consumption pattern accounted for a revision of -0.1 to -0.2 percentage point of the annual German inflation rate in 2000 and 2001. Revisions of the same magnitude stem from the introduction of internet services as a new product to the index in 2000. These and other changes in the German HICP led to a revision of the overall annual rate of -0.6 percentage point in 2000 and -0.3 in 2001. The revision of the German national HICP also caused a downward revision in euro area inflation, by 0.2 percentage point to 2.1% in 2000 and by 0.1 percentage point to 2.4% in 2001. No revisions to published HICP results for previous years were carried out in the HICP for the Netherlands and Portugal. However, the Dutch statistical office reported that the use of the new basket would have had an effect of -0.2 percentage point on annual inflation rates. These results confirm the experience that, at the overall index level, the update frequency has a limited effect on the index result. However, a sufficiently frequent review of the expenditure weights is important to ensure the representativity of the euro area HICP and the comparability of national results.