

Box 3

UPDATE OF HICP WEIGHTS AND COVERAGE OF CONSUMER EXPENDITURE

Every year, with the publication of the January index, the product and country weights used for the euro area HICP are updated.¹ The regular revision of the weights is important in order to ensure that the HICP is representative as a measure of price changes in consumer expenditure.

Update of weights for 2004

The structure of consumer expenditure changes over time for several reasons. As relative prices change, expenditure shares alter concomitantly. However, consumers may react to these relative price changes by replacing products which have become relatively more expensive with products which have become relatively cheaper. Expenditure patterns may also evolve owing to the changing preferences of consumers, e.g. as a result of increasing income levels. In addition, new goods or services may gain market share, e.g. digital cameras, while other goods or services may lose their market share, e.g. record players. Similarly, country weights are updated in order to reflect consumer expenditure patterns across the euro area countries.

The two tables below show the product and country weights for 2003 and 2004. Since aggregate product and country weights usually change only slowly, the new weights show limited changes compared with the previous year. The changes are expected to have a very small effect on overall HICP growth rates in 2004.

Table A Euro area HICP product weights

(percentage of overall index)

	Total	Unprocessed food	Processed food including alcohol & tobacco	Industrial goods excluding energy	Energy	Housing services	Transport services	Communication services	Recreation & personal services	Miscellaneous services
2003	100.0	7.6	11.7	31.6	8.2	10.4	6.3	2.9	14.9	6.4
2004	100.0	7.7	11.8	31.0	8.1	10.4	6.4	2.9	15.0	6.6

Table B Euro area HICP country weights

(percentage of euro area total)

	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI
2003	3.3	29.9	2.6	10.9	20.5	1.3	19.2	0.3	5.4	3.2	2.1	1.6
2004	3.3	29.3	2.7	11.1	20.7	1.3	19.3	0.3	5.3	3.1	2.1	1.6

Source: Eurostat.

Note: Weights may not add up to 100 due to rounding.

¹ For a discussion of the requirements as regards updates of product weights and the current practices in euro area countries, see Box 4 of the April 2003 issue of the Monthly Bulletin.

HICP coverage of consumer expenditure

The HICP covers not only the day-to-day expenditure of households (e.g. on bread) but also less frequent transactions such as paying rents, purchasing consumer durables (e.g. cars, household appliances) and buying insurance services. Given that day-to-day expenditure covers only about one-third of total consumer expenditure, only the broad basket of goods and services is appropriate for measuring overall consumer price inflation. However, consumers may base their perceptions of inflation predominantly on changes in the price of goods purchased on a daily or weekly basis, and without making an appropriate adjustment for changes in quality.² The fact that the HICP covers all household consumption expenditure and includes adjustments to account for quality improvements in the products purchased may be important in explaining diverging developments between the HICP and consumer perceptions of inflation.

The baskets and weights of goods and services covered by the HICPs reflect almost all household consumption expenditure. However, the housing expenditure of owner-occupiers is currently excluded from the HICP because of the technical and conceptual difficulties involved in its measurement. Homeowners obviously do not live free of charge and any increases in the price of the “dwelling service” they consume should be reflected in an overall price index such as the HICP. The exclusion also raises the issue of comparability, as the proportion of households that own their dwelling differs substantially across the euro area, ranging from 41% in Germany to 84% in Spain. Conversely, total national expenditure on housing rents is, in relative terms, much higher in Germany than in Spain, and the HICP weights for rents differ accordingly (11.1% and 2.3% respectively). Eurostat is currently investigating the inclusion of owner-occupier housing costs in the HICP, and a final decision is planned for 2007.

² In the HICP, actual prices paid are corrected for quality changes. For instance, if a car accessory which was previously available as an option is included as standard without increasing the car price, this would be recorded as a price reduction in the HICP.