

**Box 7****NEW COMPILATION AND PUBLICATION PRACTICES FOR THE EURO AREA HICP**

On 28 February 2006 Eurostat released the euro area HICP for January 2006, including several presentational and compilation changes.<sup>1</sup> First, a new reference year has been introduced. Second, some changes have been made to the rounding practices for HICP indices to improve the transparency and accuracy of euro area HICP growth rates. Furthermore, the yearly update of the expenditure weights used for the calculation of the HICP has also taken place. This box explains these changes in more detail.

<sup>1</sup> These were announced in the Eurostat News Release 146/2005 on 16 November 2005.

### New index reference year

Since the initial publication of the HICP in 1997, the index level series have been published with reference to the base year 1996. With the January 2006 release, the index reference period is now set at 2005 = 100. The rebasing simplifies the presentation of the HICP indices and is desirable following several extensions of the product coverage of the HICP and the enlargement of the EU. It should be noted that the update of the index reference year is merely a presentational change and has no influence on the published euro area inflation rates, owing to the new rounding practices described below.

### New rounding practices

Up to now, euro area HICP indices and inflation rates were generally compiled from HICPs rounded to one decimal place. In order to improve the accuracy of euro area inflation rates in particular, Eurostat has slightly revised its compilation and publication policies. The new procedures – applied to HICPs from 2006 – will reduce rounding effects in the compilation of euro area inflation from national data.

Under the new practices, firstly, euro area indices are compiled from national indices with several decimal places (instead of indices rounded to one decimal place). Secondly, Eurostat has started publishing euro area indices rounded to two decimal places (instead of one). Thirdly, the euro area inflation rates are calculated on the basis of the published index levels and disseminated rounded to one decimal place (as was also the practice up to now). In parallel, most EU countries (eight euro area countries and nine other EU countries) also moved to the publication of HICP indices with two decimals starting with the January 2006 release.

### New expenditure weights for 2006

Eurostat and the national statistical institutes update the expenditure weights for the calculation of the HICPs every year in order to maintain the representativity of the indices in terms of

**Table A Euro area HICP product weights**

(percentage of overall index)

	Total	Unprocessed food	Processed food incl. alcohol & tobacco	Industrial goods excluding energy	Energy	Housing services	Transport services	Communication services	Recreation & personal services	Miscellaneous services
2005	100.0	7.5	12.0	31.0	8.6	10.3	6.3	2.9	14.6	6.6
2006	100.0	7.4	11.8	30.7	9.2	10.3	6.4	2.9	14.5	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
2005	3.3	29.0	2.7	11.4	20.7	1.3	19.2	0.3	5.2	3.1	2.1	1.6
2006	3.4	28.7	2.9	12.0	20.3	1.3	19.1	0.3	5.2	3.1	2.2	1.6

Source: Eurostat.

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

consumers' expenditure<sup>2</sup> and the comparability of national results. The update is carried out for both the product expenditure shares in each country and the country shares across the euro area and the EU. It should be noted, however, that the practices for updating the HICP expenditure shares differ to some extent across the euro area countries, in particular due to differences in the availability of statistical information to update consumption volumes at detailed product level.<sup>3</sup>

The tables above compare the product and country weights for 2005 and 2006. Similar to previous years, the annual update has had only a small effect on the HICP weights. The weight of energy has slightly risen to 9.2%, which mainly reflects higher expenditures owing to increased energy prices. The overall weight of services in the euro area HICP has remained unchanged at 40.8%. HICP country weights are based on private consumption expenditure as recorded in the national accounts. As a consequence, changes in the HICP country weights may also reflect revised national accounts data.

<sup>2</sup> See also Box 3 of the March 2004 issue of the Monthly Bulletin.

<sup>3</sup> See Box 4 of the April 2003 issue of the Monthly Bulletin.