

BACKGROUND INFORMATION

IN 2001 CONSUMER BASKET USED FOR COMPUTATION OF CONSUMER PRICE INDEX CHANGED

The consumer price index (CPI) is an indicator, characterising aggregate changes in individual (goods and services and their groups) prices. The system of fixed weights is used in aggregating individual indices, as otherwise the index would not reflect a change in prices but also in structure. Usually Laspeyres-type price index is used; ie an index in which the structure of consumer expenditure of the base period is used. The main reason lies in the fact that there is operational information on the expenditure of the base period and longer time-series can be calculated without changing the system of weights. This index inclines to deviate from the reality as the actual structure of expenditure changes and substitute goods are consumed.

Time and again a question crops up to what extent the structure complies with the reality. If it does not, consumer basket is upgraded – new goods are added to the structure, indicators of consumption volume changed and prices adjusted. Due to differences in

the indices of changing and constant structure a shift appears in revaluation. As a rule, the structure is changed as of a fixed date. Sometimes during a certain period of time (for example a year) two parallel data-series are calculated – with the old and new structure.

In Estonia the structure of the CPI consumer basket has been changed four times already (in July 1992 and January 1994, 1998 and 2001). The weight of different components has significantly changed: the weight of food has decreased by 16.5 percentage points and of housing costs increased by about 6 percentage points. Evaluating changes that have taken place and are anticipated to take place, the structure of our private consumer's expenditure can be compared to that of the euro-zone private consumers (see Table 2b).

Harmonised indices of consumer prices (HICP) of the euro-zone have been calculated and published

Table 2b. Comparison of share structures of CPI components

	Estonia July 1992	Estonia January 2001	Germany 1995	Ireland 1996
Food and non-alcoholic beverages	43.5	27.0	13.1	18.9
Alcoholic beverages and tobacco	5.1	7.8	4.2	8.2
Clothing and footwear	11.8	6.8	6.9	7.0
Housing	11.2	17.5	27.5	8.4
Household goods	6.1	5.3	7.1	4.6
Health	0.8	2.4	3.4	1.9
Transport	9.1	11.5	13.9	12.1
Communications	0.8	4.8	2.3	2.1
Recreation and culture	7.2	6.8	10.4	11.7
Education	0.6	1.6	0.7	1.7
Hotels, cafés and restaurants	2.6	3.9	4.6	18.3
Miscellaneous goods and services	1.4	4.7	6.1	5.2
Total	100.0	100.0	100.0	100.0

pursuant to general comparison base (1996=100) and the general structure and classification of goods and services since March 1997. The HICP methodology has been continuously upgraded to achieve better match and comparability. As regards the structure of weights of the price index, it is essential to know that in euro-zone there is no uniform basket applying to all Member States. The euro-zone HICP is calculated as a weighted average of Member States' indices. The Member State's weight is its share of household final monetary consumption expenditure in the euro-zone total. The consumption structure varies from country to country.

In the euro-zone the average weight of food, alcohol and tobacco is just below 21%, that of energy and housing 25%, transport costs 16%. Based on the above the share of food expenditure is expected to decrease in Estonia whereas the share of expenditure related to housing, recreation and education will increase.

EMU Member States are not obliged to change their weights of consumer basket every year. Nevertheless,

there is a trend to shorten revaluation intervals. For Estonia it would also mean increasing exposure to issues related to structural changes as beginning from 2001 the structure of the CPI consumer basket would be changed every year.

Implications of the Estonian new consumer basket can be evaluated both backwards, weighing price changes of previous periods with the new buying basket (the average price growth of 2000 would have been 4.7% instead of 4.0%) and forwards, weighing price changes of upcoming periods with the old buying basket (the average annualised inflation of the first four months of 2001 would be 5.5% instead of 6.0%; see Figure 3b). The application of such comparative evaluation allows assessing trends more adequately and describing implications of structural changes.

Major problems will be shifts in forecasting CPI or inflation rate due to changes in the buying basket and a threat that economic agents will model their anticipation to distorted information rendering them inadequate.

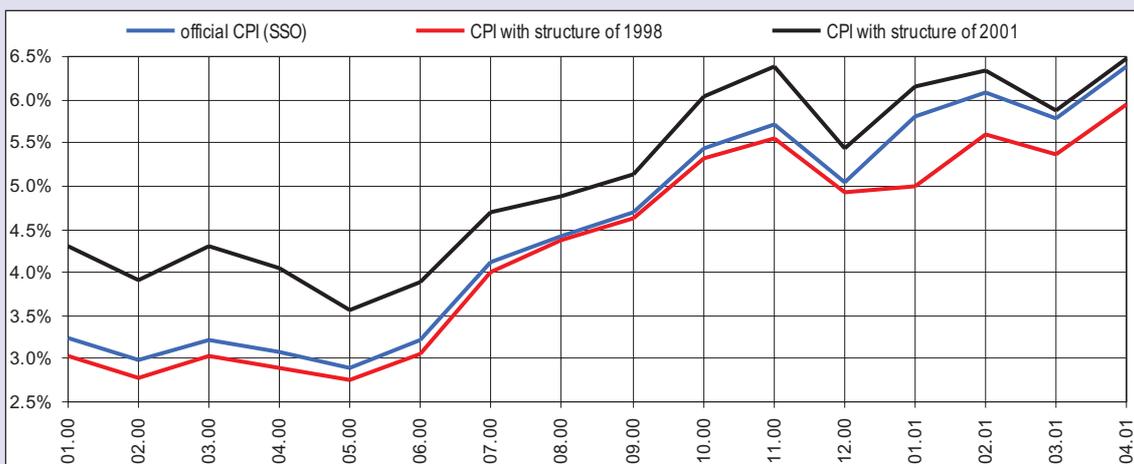


Figure 3b. Evaluation of CPI growth by different consumer baskets