



## CONSUMER PRICE INDEX - CPI

George Chr. Georgiou  
Director  
Statistical Service

1. **What does the CPI measure?**

The CPI is the official index used for the estimation of inflation. It measures the average percentage change of the prices of various goods and services (shopping basket) consumed by households in Cyprus.

2. **What is the importance of the CPI?**

It is the official index for the calculation of inflation; CPI is also used for many other different purposes, including the cost of living allowance (wage indexation), the formulation of economic and monetary policy (interest-rates, productivity, GDP, etc.), collective pay agreements and the adaptation of contracts (projects, rents etc.).

Conceptually, CPI is more a 'Laspeyres-type price index' rather than a 'cost of living index'. Consequently, CPI is not identical with the cost of living. The CPI measures only the change in the level of prices. The cost of living is of a wider significance since it is not only influenced by prices but also by the quantities that are bought-consumed and by the luxuries/needs of the households.

**3. Why is the CPI revised every few years?**

The compilation of the CPI is based on goods and services included in the shopping basket, which are derived primarily from the Household Budget Survey. This survey is conducted by the Statistical Service of Cyprus every 5 years and it records the daily expenses of households.

The shopping basket should be revised regularly in order to reflect current consumption patterns of households. There is no uniform basket applying to all European countries. Furthermore, the expenditure of households on goods and services defines the weight associated with each item included in the shopping basket for the CPI.

The latest Household Budget Survey was conducted in 2009 and the new weights were introduced in the compilation of the CPI as from January, 2011.

**4. What is defined as the weight of a good or service in the CPI?**

Goods and services included in the CPI have a weight associated with them. The weight of a specific good or service is defined by the percentage of expenditure for its purchase by households, compared to the total expenditure for all goods and services in the CPI. The weights do not reflect the quantities consumed by households on specific goods and services.

**5. How are the goods and services to be included in the CPI determined?**

The items included in the shopping basket as well as the expenditure of households to purchase them, are recorded by the Household Budget Survey, which is conducted by the Statistical Service of Cyprus every 5 years. The survey records the expenses of households on a daily basis and in this way, the goods or services acquired and the corresponding amounts of money spent, are determined.

**6. What is the weight assigned to each category of goods based on the latest survey?**

The latest Household Budget Survey was conducted in 2009. The percentage distribution of expenditure on the main categories of goods (i.e. weights) is presented in the table that follows. Comparison is made between the weights used for 2010 (with half imputed and no imputed rents) and 2005 (previous Household Budget Survey).

CATEGORY	Weights (%)		
	2005 (half imputed rents)	2010 (half imputed rents)	2010 (no imputed rents)
1. Food and non-alcoholic beverages	17,50	14,59	16,15
2. Alcoholic beverages and tobacco	2,21	1,93	2,13
3. Clothing and footwear	8,93	7,66	8,48
4. Housing, water, electricity and gas	15,87	20,76	12,30
5. Furnishings, household equipment and supplies	6,78	6,77	7,50
6. Health	5,03	5,97	6,60
7. Transport	15,99	13,69	15,16
8. Communication	3,94	3,97	4,39
9. Recreation and culture	6,33	5,83	6,45
10. Education	2,87	3,33	3,69
11. Restaurants and hotels	7,57	7,58	8,38
12. Miscellaneous goods and services	6,98	7,92	8,77
<b>TOTAL</b>	<b>100,00</b>	<b>100,00</b>	<b>100,00</b>

The table above shows some changes in the structure of the expenditure of households between 2005 and 2010. Specifically, comparing the column with half imputed rents, the category of “Food and non-alcoholic beverages” and “Clothing and footwear” show a significant decrease in 2010, something which is expected, since it is a well known fact that as the standard of living improves, the percentage of expenditure on basic goods decreases and the expenditure on luxury goods increases.

A decrease was also observed in the category of “Transport”, due to the decrease in car imports observed in 2009. A significant increase was observed in the weight of “Housing, water, electricity and gas”, which is attributed to the significant price increase of all the sub-categories of this main category between 2005 and 2010.

An increase was also observed in the weights of categories “Health” and “Miscellaneous goods and services”, which is considered normal. The last column of the table presents the weights of the categories when no imputed rents are taken into account. This results in the decrease in the weight for Housing, which drops to 12,30% from 20,76% and a proportional increase in the weights of the other categories.

**7. Household Budget Survey**

The Statistical Service of Cyprus has conducted the Household Budget Survey (HBS) for 2009 with the scope, among other things, to revise the weights of the CPI. All Household Budget Surveys conducted so far by the Statistical Service of Cyprus (2009, 2003, 1996/97, 1990/91 and 1984/85), covered households of all income classes in rural and urban areas.

The latest HBS was based on a sample of 2.707 households. A multi-stage stratified sampling was used for the selection of the households to be included in the sample.

The data for the survey were collected by interviewers, trained specifically for this survey. The interviewers visited the households and entered the data into an electronic questionnaire, on laptops.

The aim of the survey was mainly the collection of data concerning the expenditure of households, data which are necessary for the revision of the weights of the CPI.

**8. How many items are included in the CPI?**

About 850 goods and services from all categories of expenditure are included in the “shopping basket” of the CPI, compared to 700 items covered in the previous CPI. Each time the CPI is revised, additional items are included in the list of goods and services, in order to achieve a better representation of the consumption pattern of households. It should be specified here that “new items” in the shopping basket are not necessarily new products or services in the market. They are rather new items on the list, which have now been included due to the fact that their weight in the total expenditure of households has become large enough to designate their inclusion on the shopping basket.

**9. How, where and when are the prices of goods and services recorded?**

The prices for the 850 goods and services are monitored and recorded once a month, except for some seasonal products, like vegetables, fruit, meat and fuel. For these products, the prices are recorded on a weekly basis (every Thursday).

As from January 2006, when the base year for the CPI index was revised, three price quotations are recorded for each good in the CPI. This means that prices from three different stores are recorded in each city (instead of two that were recorded previously). For fruit and vegetables, 8 price quotations are recorded and for fuel, prices from all selling companies are recorded. The prices for goods, excluding fruit and vegetables and fuel, are recorded on predetermined dates and

within a period of 3 weeks within each month. They consequently represent a full-month's duration. The collection of prices is done by contacting approximately 1.400 outlets and 700 houses (for rents).

The CPI covers the prices of goods and services in Nicosia, Larnaca, Limassol and Paphos. For each city, the changes in prices by product are weighted each month, according to the population. Specifically, the weights for the districts are: Nicosia 42%, Limassol 30%, Larnaca 18% and Paphos 10%.

#### 10. How is the CPI disseminated?

The main CPI index and relevant price indices for the 12 main categories of goods and services are disseminated on the first Thursday of each month. The publication of the CPI is announced to the media and the Official Gazette of the Government. Furthermore, the CPI is published on the website of the Statistical Service. In addition to the presentation of data in the form of indices, the percentage changes in the price of goods and services for each month, compared to the corresponding month of the previous year are given, as well as for the cumulative period since the beginning of the year, compared to the corresponding period of the previous year.

In the table that follows the general CPI and the indices for the main groups are shown, as well as the percentage change in prices for the months of December 2010 and January 2011.

Categories of Goods and Services	Price Index (2005=100)		Percentage Change (%)	
	December 2010	January 2011	<u>Dec. 2010</u> Dec. 2009	<u>Jan. 2011</u> Jan. 2010
1. Food and non-alcoholic beverages	119,56	125,34	-2,81	2,18
2. Alcoholic beverages and tobacco	111,56	117,13	6,13	10,78
3. Clothing and footwear	106,91	82,83	-2,00	-1,40
4. Housing, water, electricity and gas	123,04	126,39	7,35	7,82
5. Furnishings, household equipment and supplies	103,78	104,86	-1,96	1,81
6. Health	124,62	126,24	2,11	3,36
7. Transport	105,61	104,00	4,69	3,62
8. Communication	99,58	100,14	-0,02	0,57
9. Recreation and culture	105,74	107,77	-0,67	1,79
10. Education	130,58	130,03	3,98	3,54
11. Restaurants and hotels	124,08	123,60	1,83	1,55
12. Miscellaneous goods and services	114,20	110,99	2,09	-0,28
<b>General Consumer Price Index</b>	<b>114,45</b>	<b>113,51</b>	<b>1,64</b>	<b>2,84</b>

**11. Other information relevant to the CPI**

In addition to the CPI, the Statistical Service of Cyprus compiles the Harmonised Index of Consumer Prices (HICP), which is used by Eurostat for comparison between the EU countries.

The HICP uses different weights than the CPI, since it includes tourist expenditure in addition to the expenditure of residents (something not covered in the CPI). The weights for the HICP are revised on an annual basis while the weights of the CPI are revised every five years.