



EXPLAINING THE CONSUMER PRICE INDEX (CPI)

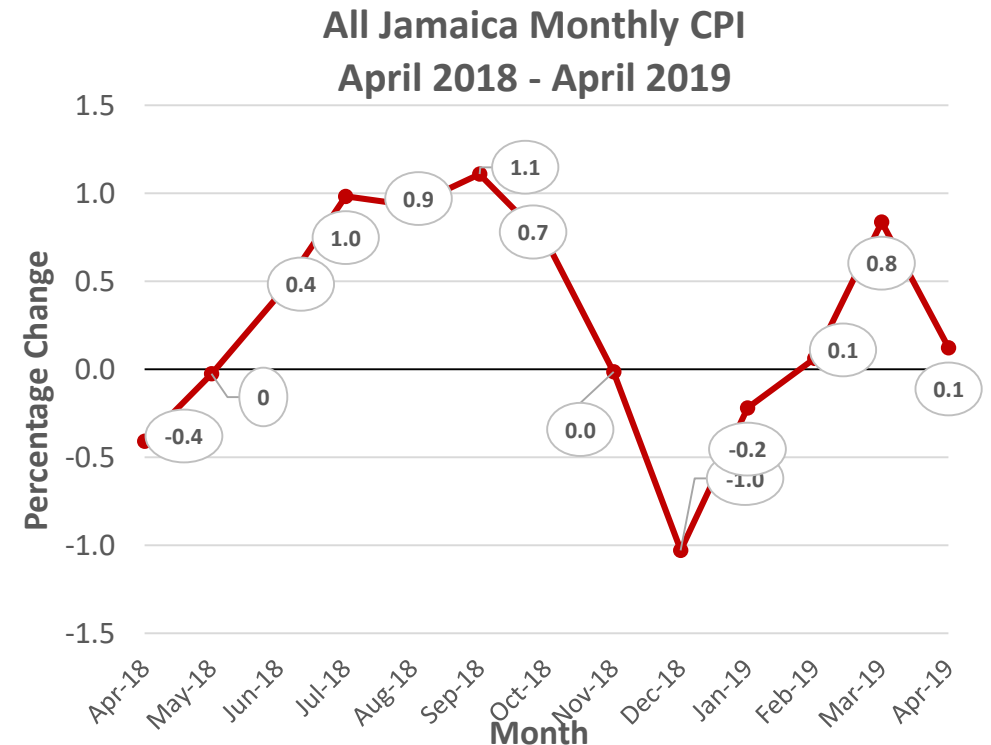
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Presented by:
Carol Coy
Director General, STATIN



WHAT IS THE CONSUMER PRICE INDEX (CPI)?

- The Consumer Price Index (CPI) is an index that measures changes in the general level of prices of consumer goods and services purchased by private households.
- The CPI is the most widely used measure of inflation.



What is the Consumer Price Index (CPI)?

CPI measures price movements of a fixed quantity of consumer goods and services

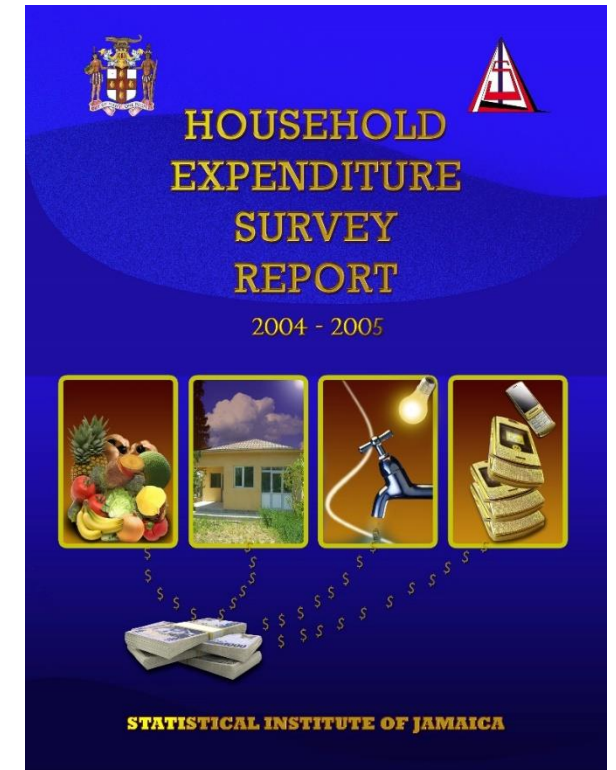
- The CPI aims to track the **price change** of goods and services experienced by all consumers in Jamaica.
- These goods and services form a figurative “shopping basket”.
- The “basket” represents a mix of consumer goods and services purchased by most households. Each item in the basket has an associated price and specific quantity.
- The price/quantity relation allows for the measurement of pure price change.

The Consumer Price Index “Basket”

- The CPI basket is determined from a ***Household Expenditure Survey (HES)***.
- The Household Expenditure Survey primarily collects information on the amount households spend on consumption goods and services over a given period of time.
- The purpose of the HES is to periodically update the basket to ensure its continued relevance to actual spending habits.

THE CONSUMER PRICE INDEX “BASKET”

- The HES determines:
 - The items (goods and services) to be included in the CPI “basket” for which prices will be collected
 - Weight of each item, that is, their relative importance to total expenditure
 - The most popular outlets where households shop.
- The current CPI is based on a HES conducted June 2004-March 2005.
- This data was price updated to December 2006, the base price reference period used for the compilation of the CPI.



THE CONSUMER PRICE INDEX “BASKET”

The CPI includes nearly all goods and services purchased

- The product scope of the CPI includes goods and services purchased by households in Jamaica, for which a market price can be observed.
- The weight of each item indicates the relative importance of that commodity in the “basket”.



Explaining the Consumer Price Index (CPI)

CPI CATEGORIES

Food and Non-Alcoholic Beverages

Alcoholic Beverages & Tobacco

Clothing and Footwear

Housing, Water, Electricity, Gas and Other Fuels

Furnishings and Household Equipment

Health



CPI CATEGORIES CONTINUED

Transport

Communication

Recreation and Culture

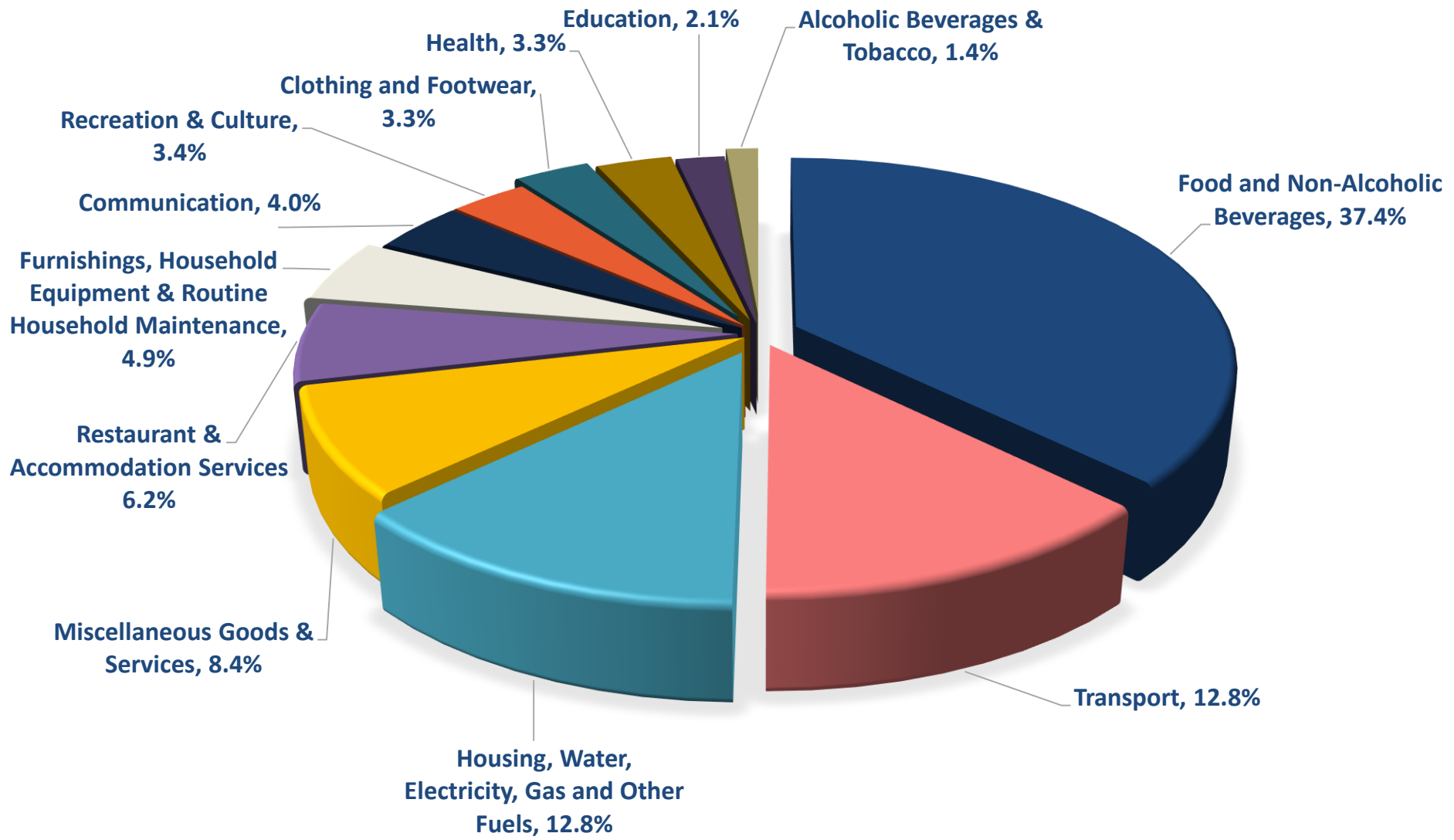
Education

Restaurants and Hotels

Miscellaneous Goods and Services



CPI WEIGHTS based on HES 2004-5



Process Flow: HES to CPI

Household Expenditure Survey

- Determine the CPI basket
- Determine weights of items
- Determine Outlets



CPI Basket of Goods and Services

- A comprehensive list of consumer goods and services associated with specific quantities



CPI Monthly Price Surveys

- Most prices for CPI items are collected monthly. Price movements monitored closely.



Compute the CPI

- Calculate a series of index numbers



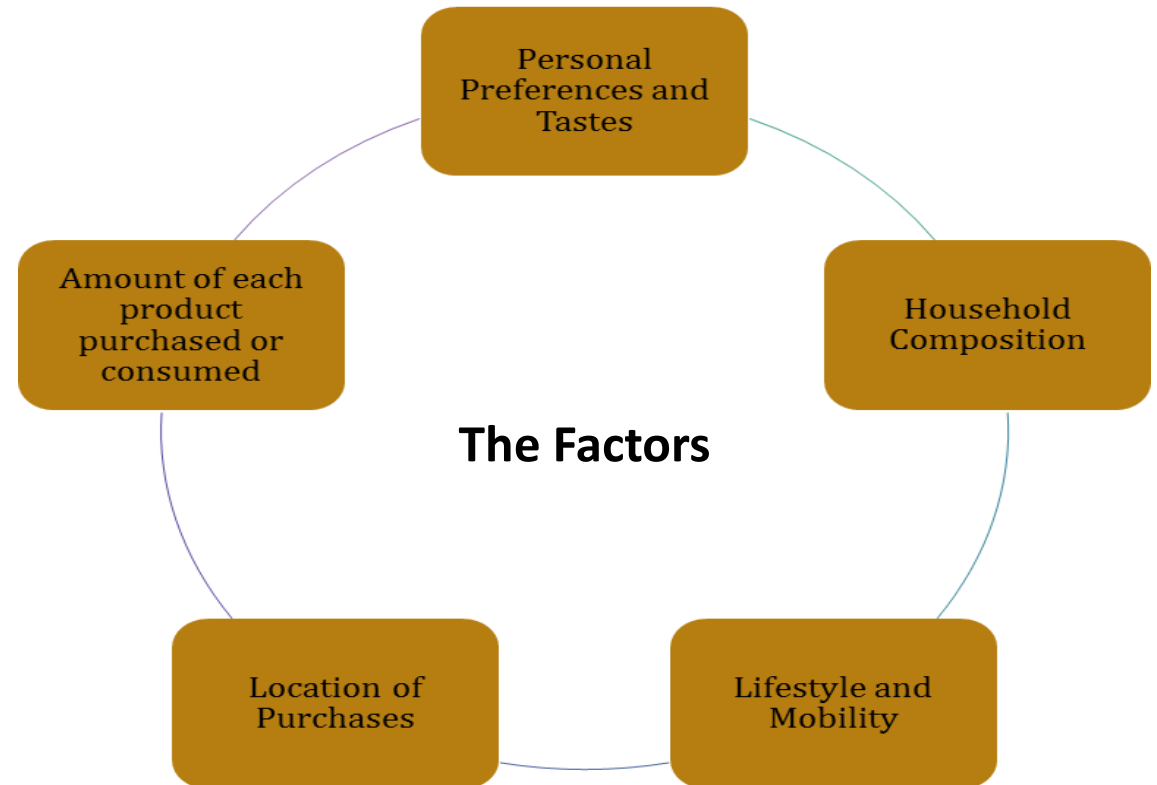
Deriving the Inflation Rate

- The change in the index number between two time periods

Facts about the CPI

The CPI does not reflect an individual personal 'inflation' experience

- It may not reflect price changes that affect a particular individual or household at a particular time.
- The reality of individuals is that there are different factors influencing their purchases.



FACTS ABOUT THE CPI

Not an individual personal 'inflation' experience (Cont'd)

- Consumers tend to attach greater importance to changes in the prices of goods and services they buy most frequently, and less to the price changes of occasional purchases.

For example, the change in price of gasoline versus a new mattress.

- The CPI measures price changes in all goods and services throughout the year – even if some households may not be making certain purchases.



FACTS ABOUT THE CPI

The CPI does not measure changes *in people's standard of living*

- This would be difficult since standards of living vary from individual to individual.
- *For example:* If your mode of transportation used to be bus up to last year and it changed because you have now acquired a motor vehicle; your transportation expenses in the current year are expected to increase as the cost of maintaining the vehicle is more than the cost of the bus fares that were paid in the previous year.



FACTS ABOUT THE CPI

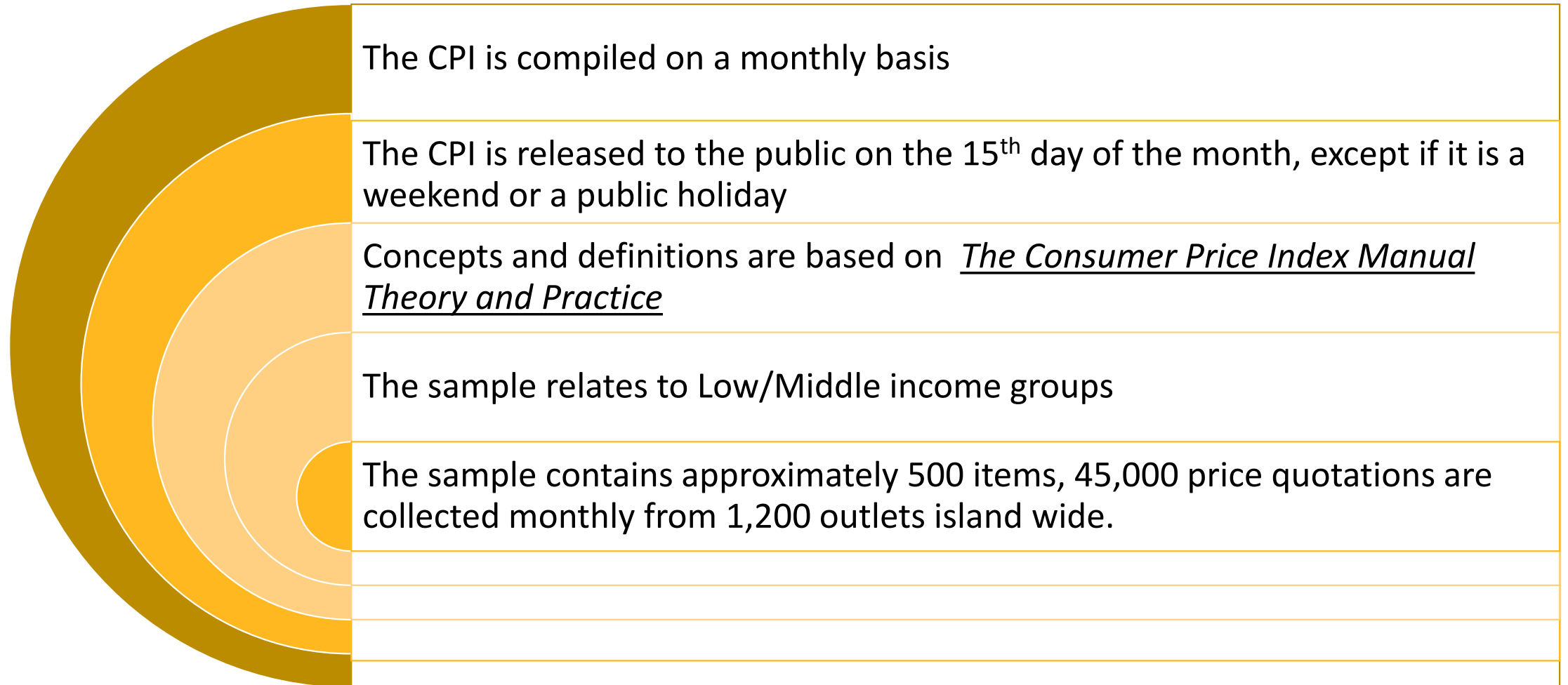
The CPI accounts for differences between items that are no longer sold and their replacements

- The universe of products bought and sold in the marketplace changes over time.
- When a shop stops selling a product that is included in the CPI sample, a substitute item that is similar to the item the CPI is found.
- If the new item is notably different from the item it is replacing, quality adjustments are performed to account for these differences.



CPI measures pure price change, and not price change due to quality change

The Jamaican Consumer Price Index



The CPI is computed for three regions:

GKMA

The Greater Kingston Metropolitan Area

Includes Kingston, Urban St. Andrew and extends to include Spanish Town and Portmore in St. Catherine.

OUC

Other Urban Centres

Includes all parish capitals and other main Urban Centres.

Rural

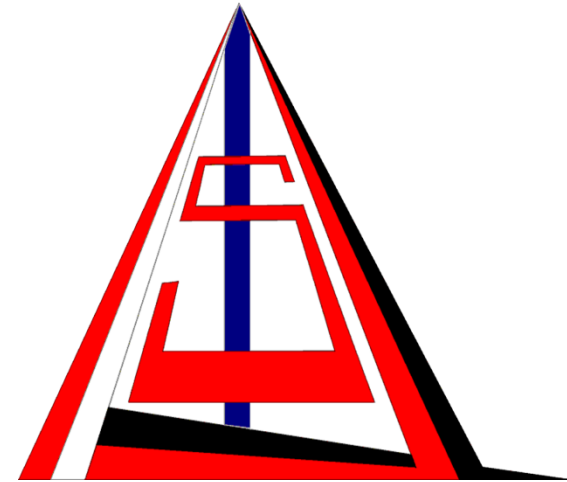
Rural Areas

Includes all other areas

The index for these regions are used to compute an **All Jamaica Index**.

2017 HOUSEHOLD EXPENDITURE SURVEY

- An HES was conducted in 2017.
- Currently we are processing the data to determine the new basket.
- Publication and dissemination: HES Report and NEW CPI 2020.



THANK YOU

**STATISTICAL INSTITUTE OF JAMAICA
(STATIN)**

7 CECELIO AVENUE

KINGSTON 10

JAMAICA W.I.

1 (876) 630-1600



INFO@STATINJA.GOV.JM

