

UNDERSTANDING THE CONSUMER PRICE INDEX (CPI)

AUGUST 30, 2018

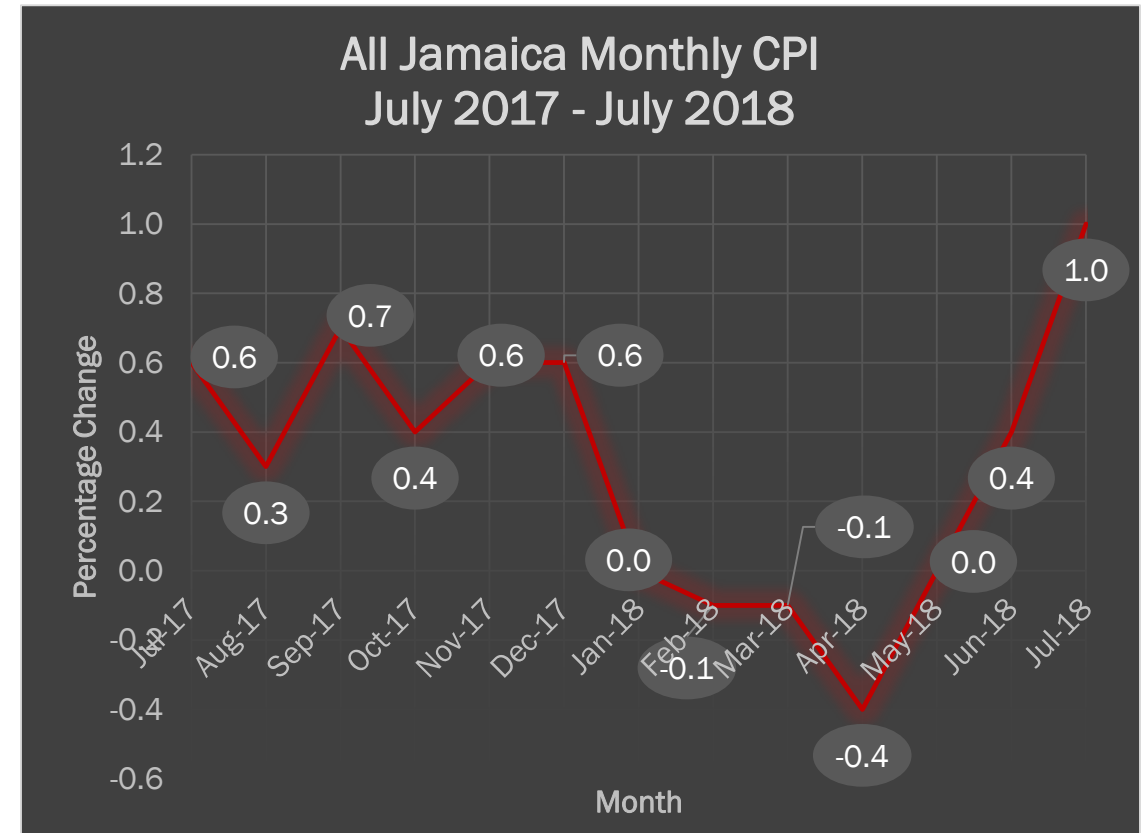
Presented by:
Shelly-Ann Chambers
Unit Head, Indices & Price Analyses



WHAT IS THE CONSUMER PRICE INDEX (CPI)?

The Consumer Price Index (CPI) measures changes in the general level of prices of consumer goods and services purchased by private households.

The CPI is the most widely used current measure of inflation in Jamaica.



A Brief History of the CPI

- The CPI was first introduced in Jamaica in 1939 when the Labour Department conducted a cost of living survey on which the first CPI or Cost-of-Living Index, as it was called was based.
- A limited number of items were covered in this index with the target group being lower income consumers in the Kingston Metropolitan Area. For the Rural Area a Sugar Workers Cost-of-Living Index began in 1943.
- A revised series first published monthly by the Statistical Institute of Jamaica was released in 1989 with base period, January 1988.
- The historical series currently used has been linked and rebased to January 1976.

Uses of the CPI



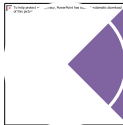
Report how prices that households face have changed over time



Used to help set monetary policy



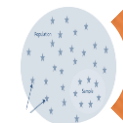
Help ensure payments maintain their purchasing power



Adjustment of wages, salaries and pensions by employers



Rental Agreements



Social and economic studies of the economy

FACTS ABOUT THE CPI

The CPI does not reflect the reality of individual households *OR An individual's personal inflation experience.*

- 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: a consumer is likely to notice the price of a litre of gasoline on a weekly basis but might go for years without knowing the price of 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 measures price movements of a fixed or given quantity of consumer goods and services.

The CPI aims to track the price change experienced by all consumers in Jamaica.

It may not reflect price changes that affect a particular individual or household at a particular time. Many factors, such as

- Personal preferences and tastes
- Household composition
- Lifestyle and mobility
- Location of purchases
- Amount of each product purchased or consumed

Influence what goods and services individuals purchase.

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 includes nearly all goods and services purchased

- The product scope of the All-items CPI includes nearly all goods and services purchased by households in Jamaica, for which a market price can be observed. This includes matches, tobacco, eggs, tomato, yam, gym fees, fee to license motor vehicles, rags, lotion, fabric prices, shoes, pain relievers, doctor fees, dentist fees, cable fees, barber and beauty salons, etc.



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, the CPI price collector finds a substitute item that is similar to the item the CPI had been following.
- The CPI analyst determines whether the new item differs significantly from the item it is replacing. If notably different quality adjustments are performed to account for these differences.



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

The Contents and Structure of the CPI

- The CPI measures price movements of a specified quality and quantity of consumer goods and services.
- These goods and services can be figuratively thought of as a “shopping basket” hence we refer to the term, “basket” of consumer goods and services.
- The “basket” represents a mix of consumer products purchased by the average household.
- No two households are exactly alike in their spending habits. Each household purchases a different combination of goods and services for consumption



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 and Bull Bay in St. Andrew.



OUC

Other Urban Centres

Includes all parish capitals and other main Urban Centres.



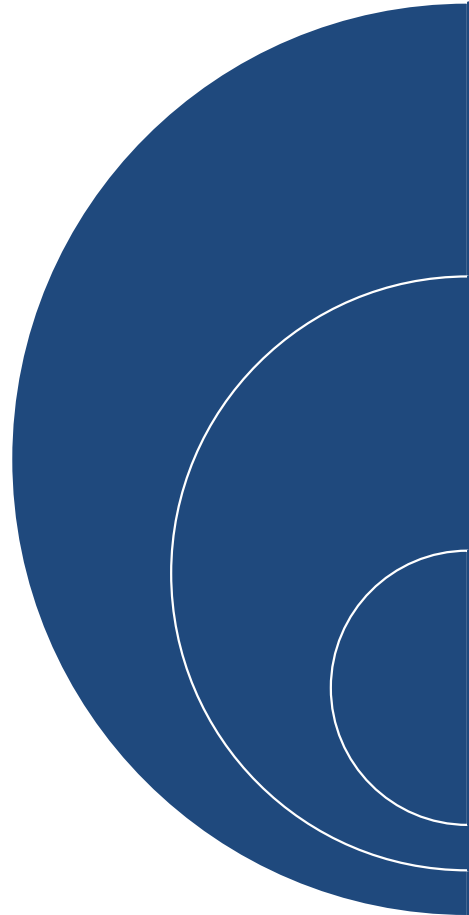
Rural

Rural Areas

includes all other areas

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

The Jamaican Consumer Price Index

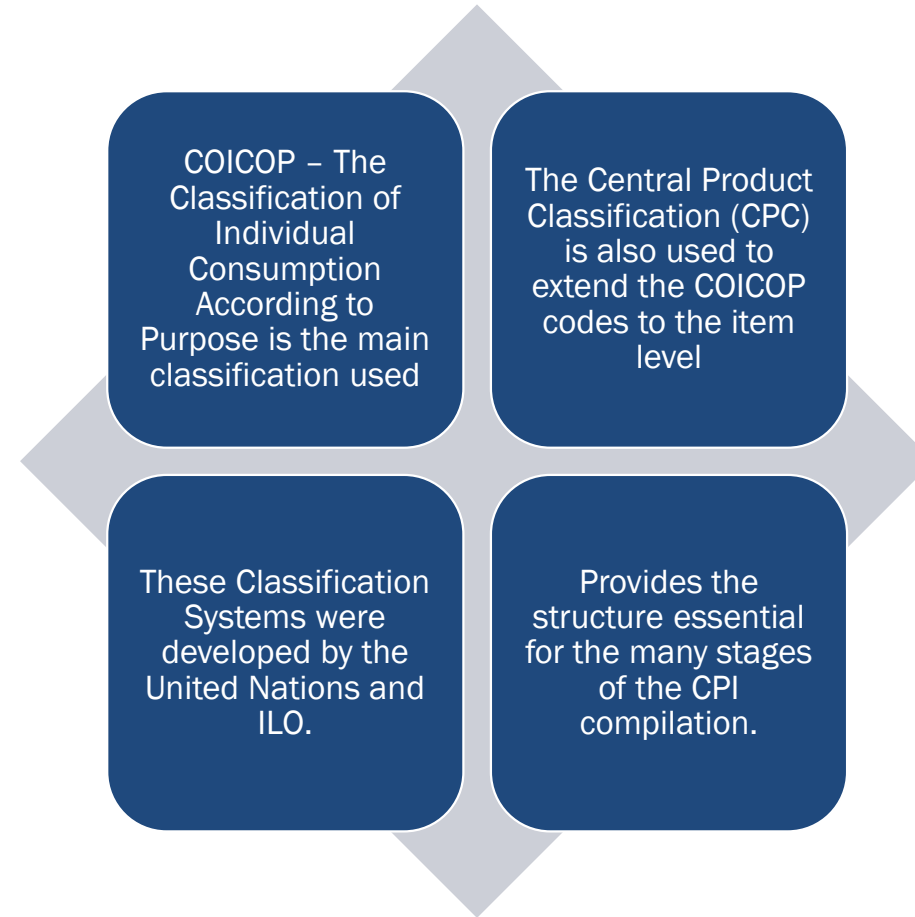


The CPI is compiled on a monthly basis

In keeping with international standards the CPI is released to the public on the 15th day of the month, except if it is a weekend or a public holiday

Concepts and definitions are based on *The Consumer Price Index Manual Theory and Practice*

Classification System used for the Computation of the CPI



The Household Expenditure Survey (HES)

- Since the CPI assumes the purchase of a fixed “basket” of consumer goods and services, the series must be updated periodically to ensure its continued relevance to the actual spending habits of households to which it relates.
- Changes to content and classification structure may also be introduced at the time of a basket update.
- For this reason STATIN undertakes a HES to collect information on how households spend their money.



The Household Expenditure Survey (HES) continued

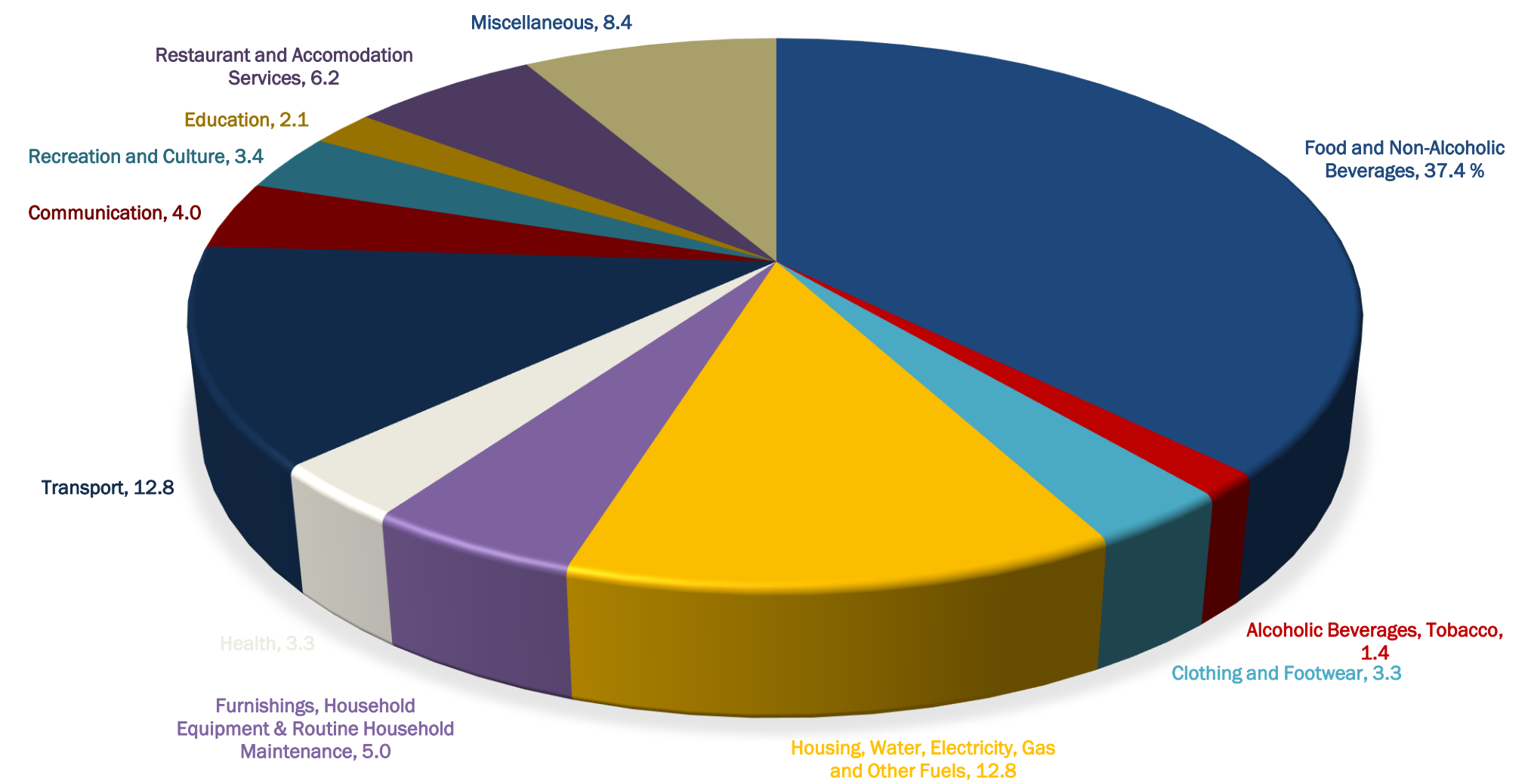
The Household Expenditure Survey (HES) is used to determine:

- The items of goods and services to be included in the “basket” for which prices will be collected.
- Weight of each items, that is, their relative importance to total expenditure.
- The most popular outlets where households shop.

The Household Expenditure Survey (HES) continued

- The current HES was 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.
- An HES was conducted in 2017.

CPI WEIGHTS based on HES 2004-5



TYPE OF INFORMATION TO BE COLLECTED

- Monthly, quarterly and annually price collection surveys are carried out at outlets such as for various items over specified time period, in general these categories are:
 - Food and Non-Alcoholic Beverages
 - Alcoholic Beverages & Tobacco
 - Clothing and Footwear
 - Housing, Water, Electricity, Gas and Other Fuels
 - Furnishings and Household Equipment

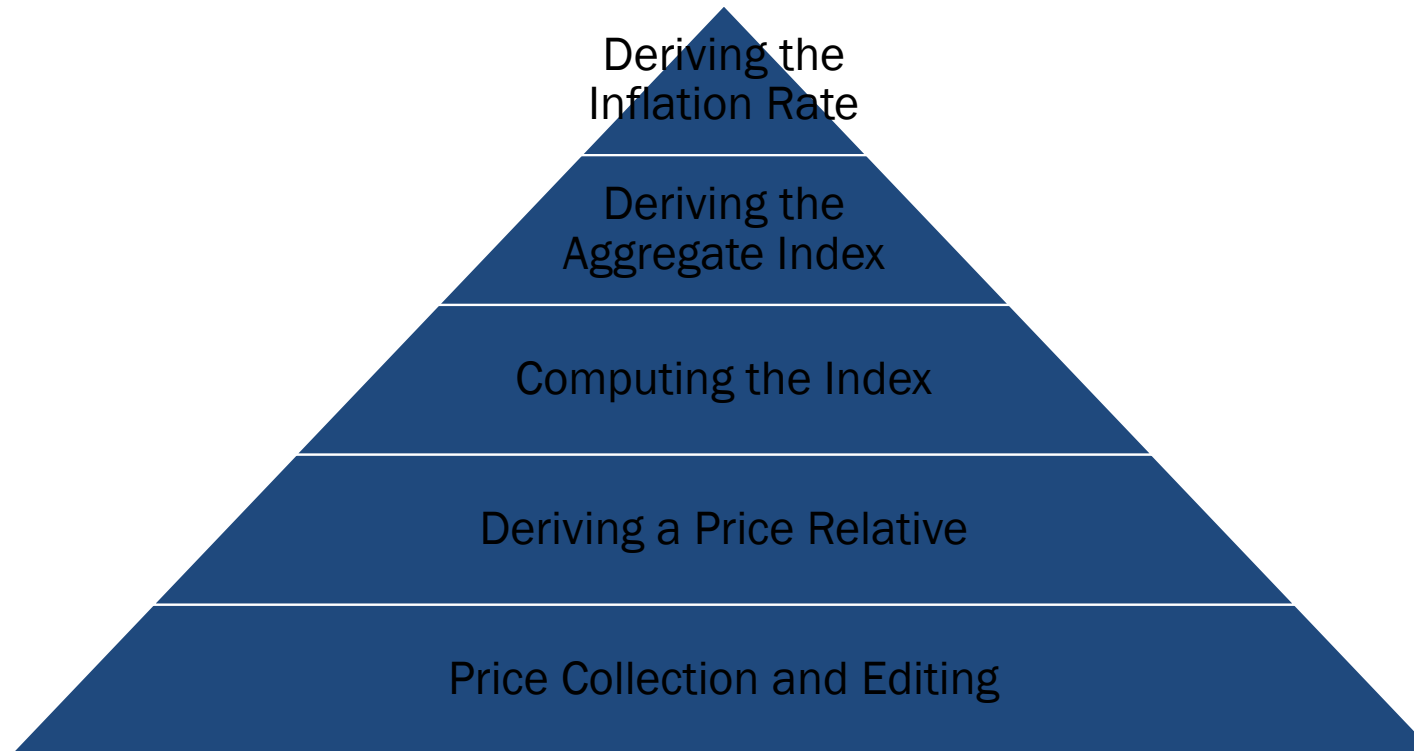


TYPE OF INFORMATION TO BE COLLECTED FROM THE SURVEY (CONT'D)

- Other category of items are:
 - Health
 - Transport
 - Communication
 - Recreation and Culture
 - Education
 - Restaurants and Hotels
 - Miscellaneous Goods and Services



The Steps for Computing the CPI



THANK YOU

**STATISTICAL INSTITUTE OF JAMAICA
(STATIN)**

7 CECELIO AVENUE

KINGSTON 10

JAMAICA W.I.

1 (876) 630-1600



INFO@STATINJA.GOV.JM

