

UNDERSTANDING THE CONSUMER PRICE INDEX (CPI)

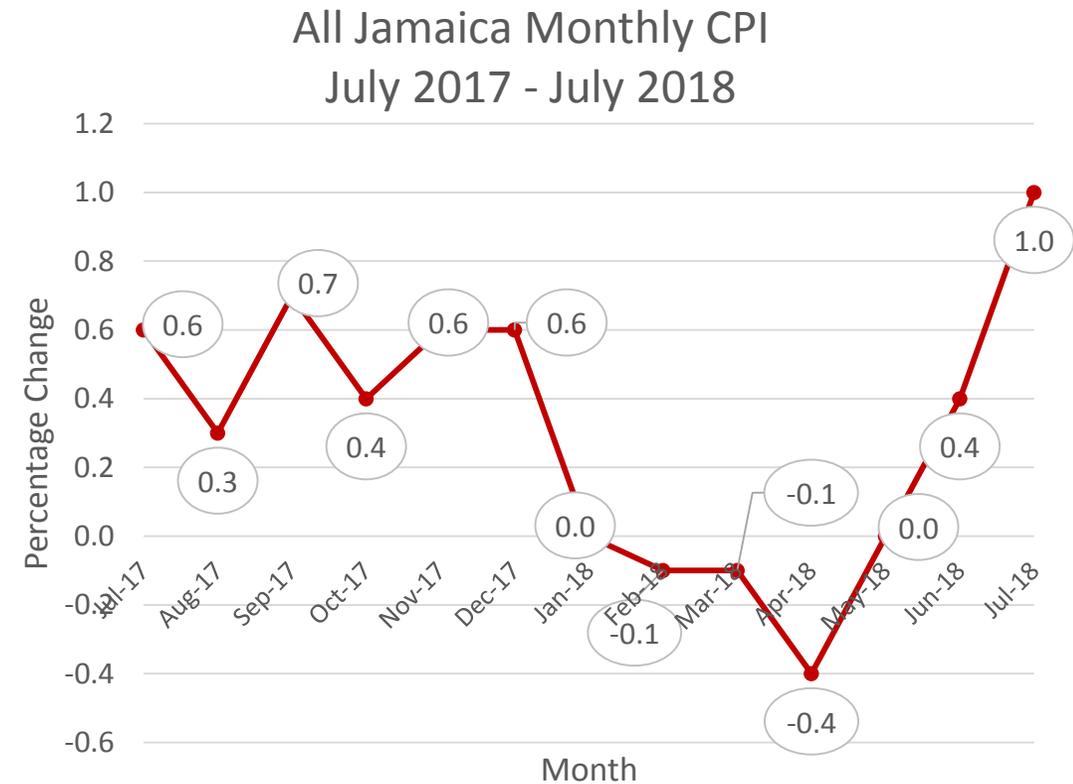
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Presented by:
Shelly-Ann Chambers
Unit Head, Indices & Price Analyses



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.



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

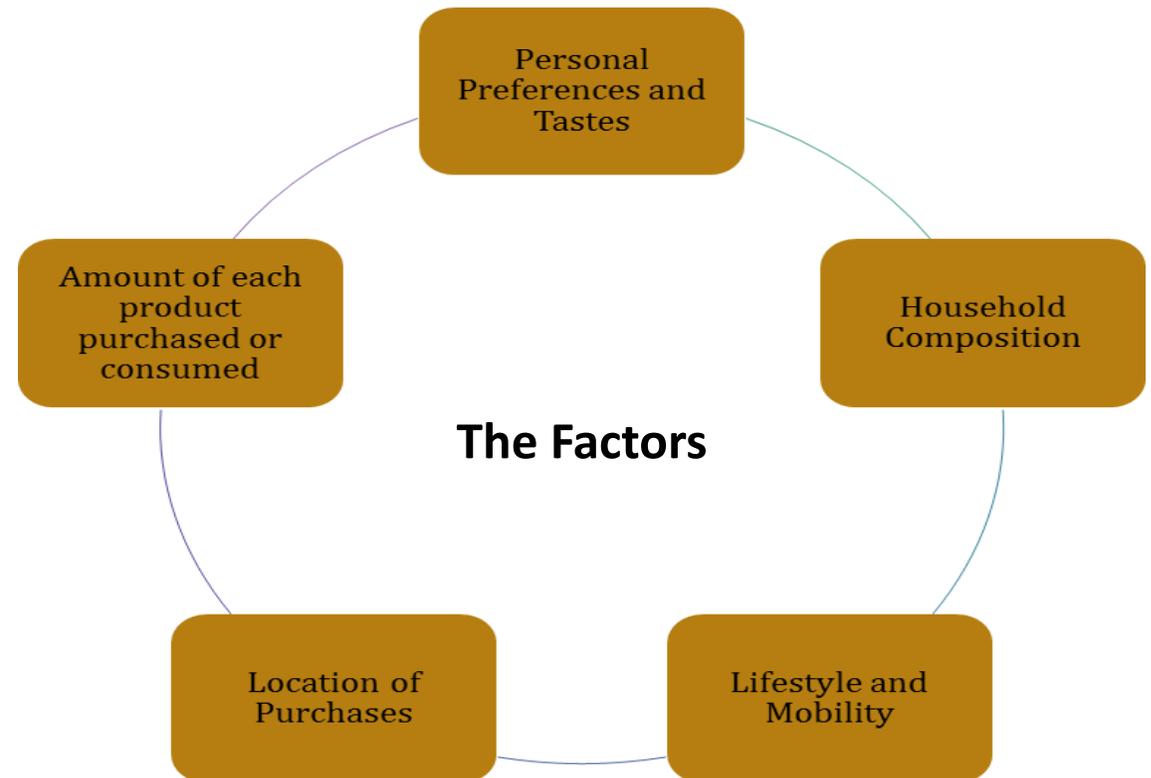
CPI measures price movements of a fixed quantity of consumer goods and services

- 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 quantity.

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 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.



Understanding 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



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 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.

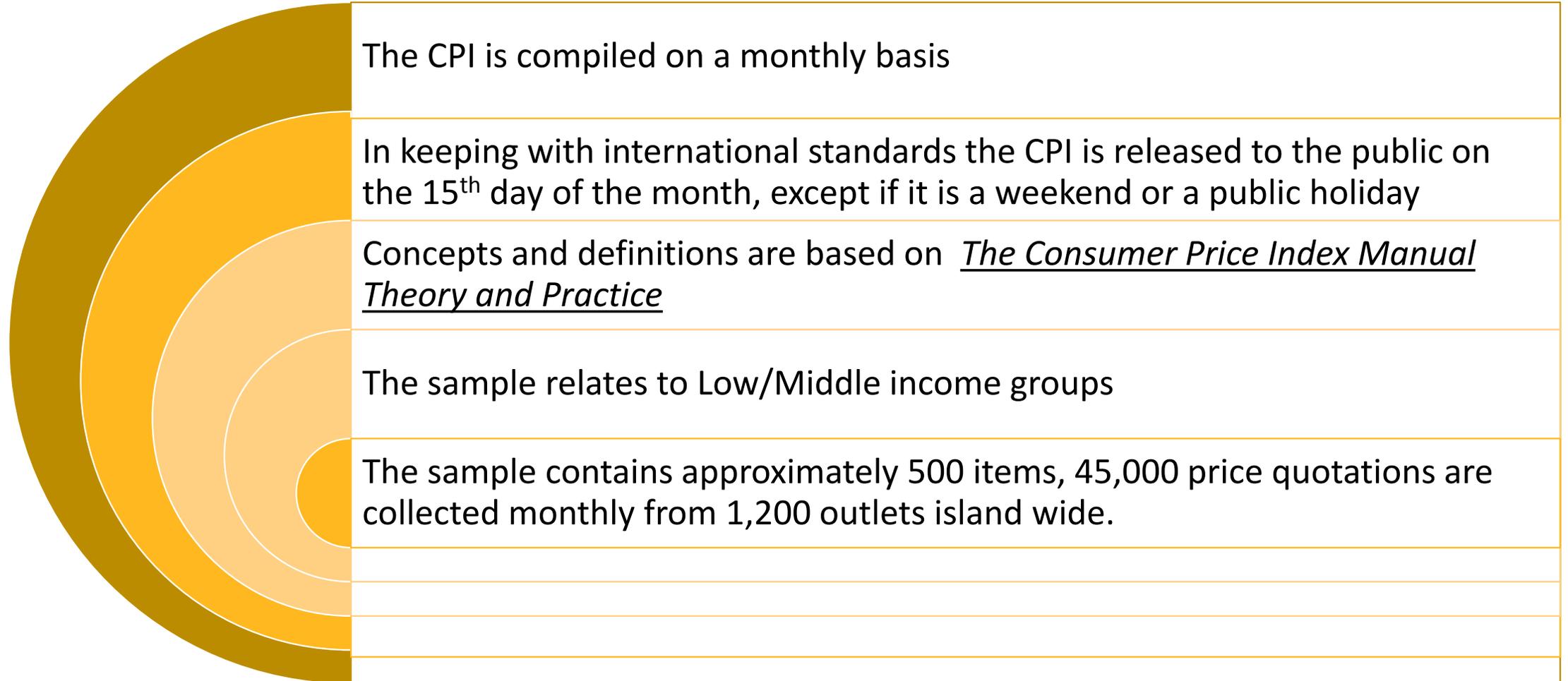
Rural

Rural Areas

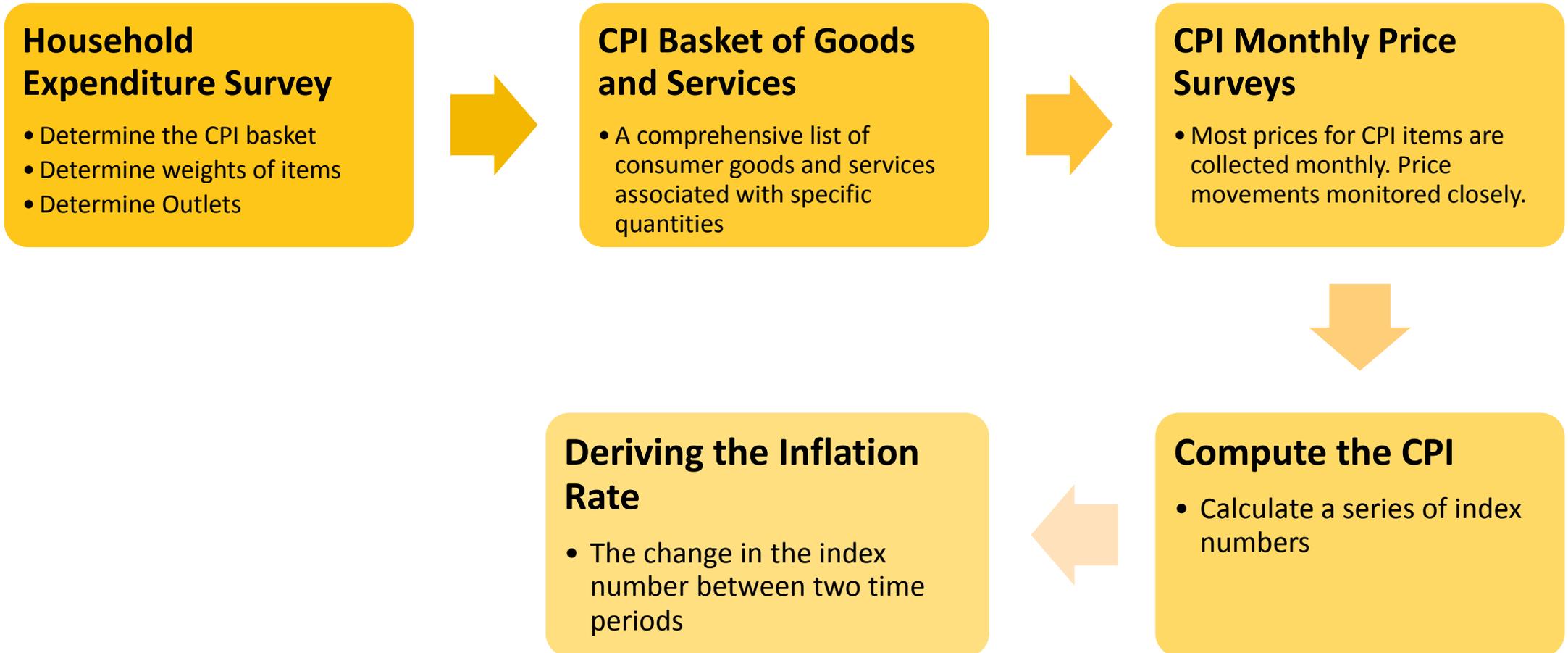
Includes all other areas

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

The Jamaican Consumer Price Index

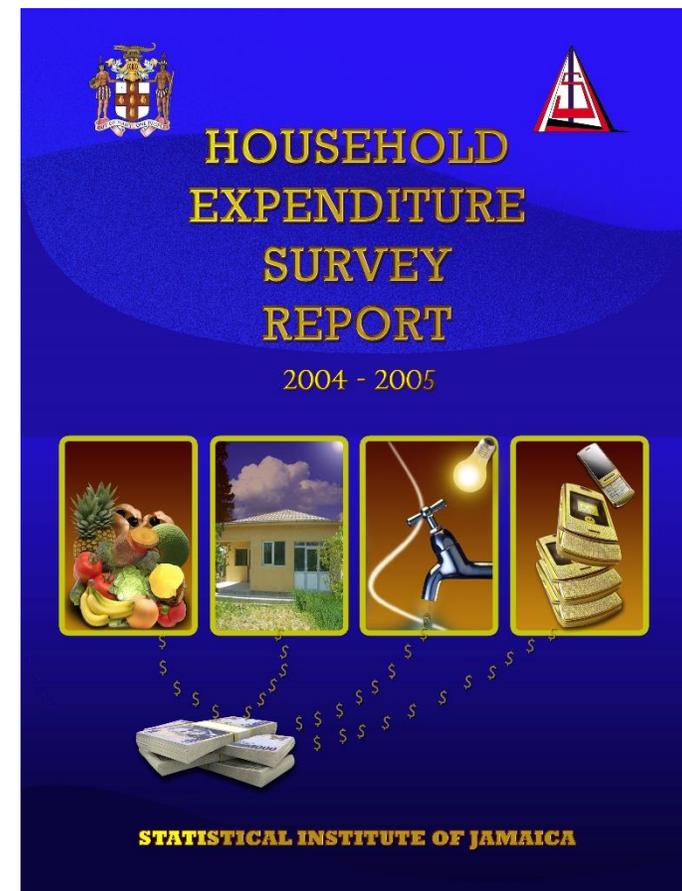


Process Flow: HES to CPI

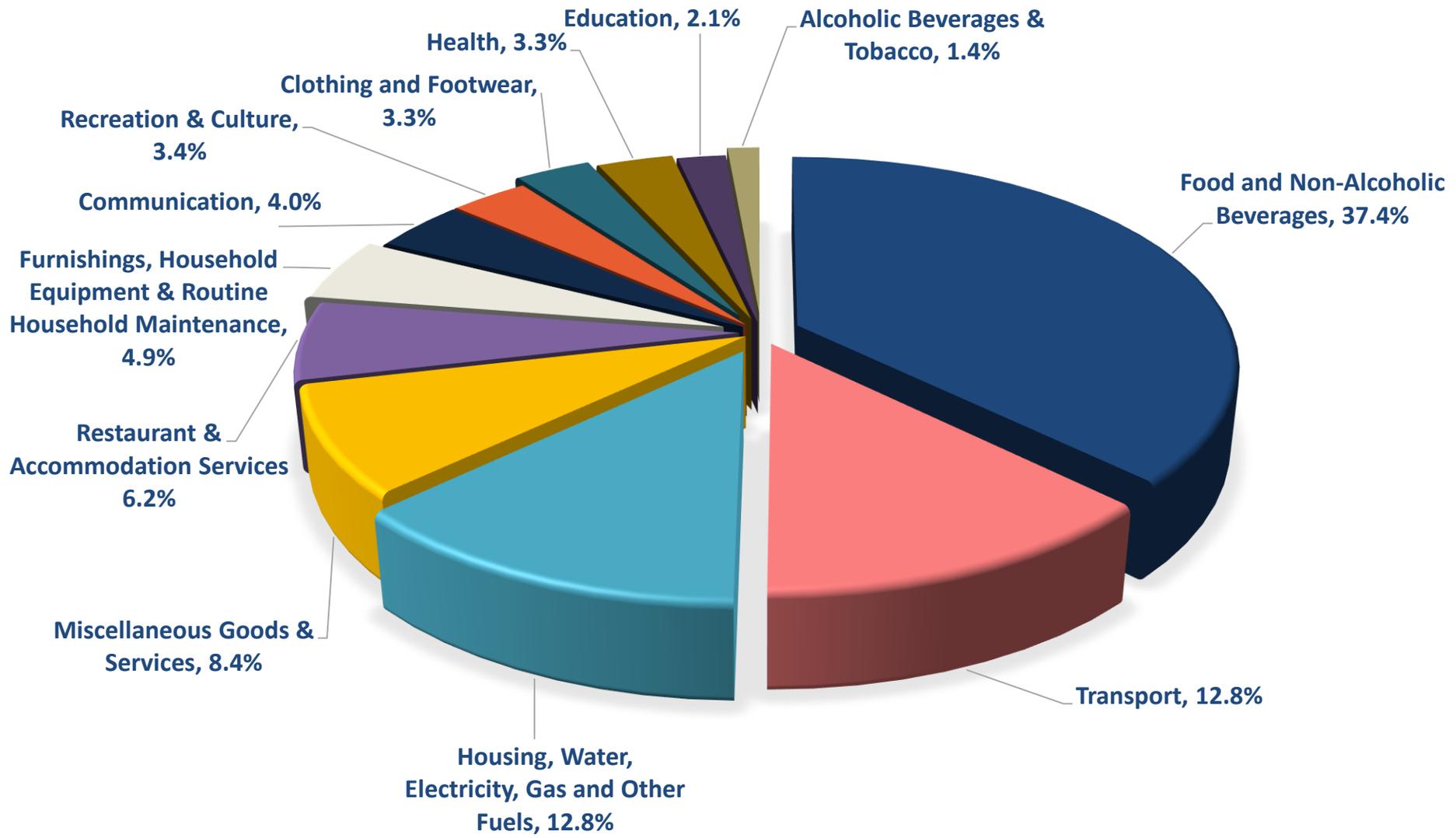


2004/05 HOUSEHOLD EXPENDITURE SURVEY

- The purpose of the HES is to periodically update the basket to ensure its continued relevance to actual spending habits.
- 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.

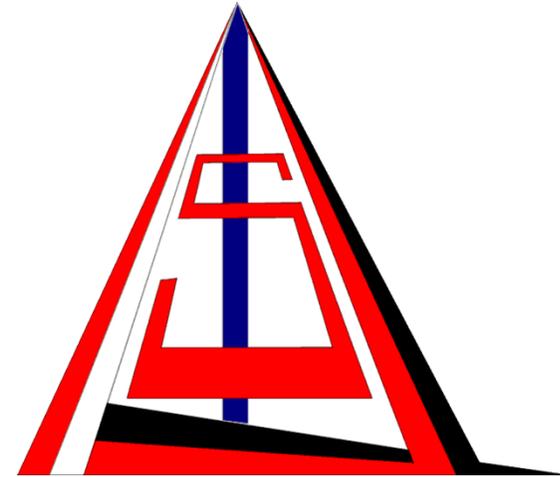


CPI WEIGHTS based on HES 2004-5



2017/18 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

