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# THE REVISED CONSUMER PRICE INDEX (CPI) 2020

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## Technical Note

*Release Date: July 1, 2020*

### INTRODUCTION

The April 2020 Consumer Price Index (CPI) bulletin introduces a new CPI series starting from January 2020. The CPI measures changes in the general level of prices of consumer goods and services purchased by private households. It is the most widely used measure of inflation.

The CPI tracks the movement of prices over time of a specified basket of consumer goods and services. The index does not, however, reflect changes in individual consumer's tastes and preferences or changes in standard of living due to changes in income levels. The basket contains those goods and services purchased by the majority of Jamaican households. Since new goods and services are periodically introduced to the market and general expenditure patterns change over time, it is therefore necessary to periodically update the basket of goods and services used in the compilation of the CPI. This allows for the basket to maintain its relevance, reflecting the current spending habits of the Jamaican population.

The Household Expenditure Survey (HES) is used to determine the items in the basket. Consumption patterns and tastes have changed since the last HES in 2004/2005 and so the 2017 HES sought to capture new products that have entered the market and identify products which have become obsolete or shifts in consumer spending.

### THE HOUSEHOLD EXPENDITURE SURVEY (HES)

The primary purpose of a HES is to obtain information on the goods and services purchased by private households. This is used to determine the general pattern of expenditure in the economy. Data from the 2017 HES was used to determine:

- The goods and services in the CPI basket for which prices will be collected on a monthly basis;
- The weight of each item, that is, their relative importance to total expenditure;
- The most popular outlets where households shop.

The survey covered approximately 12,500 households across the island and was conducted over 12 months to capture seasonal expenditure patterns throughout the year.

### SCOPE AND COVERAGE

The CPI reflects the expenditure patterns of low to middle income households, representing quintiles one (1) to four (4). That is households whose income fall below the eightieth (80<sup>th</sup>) percentile. Currently, the CPI does not represent the consumption of upper income households.

This CPI covers domestic consumption expenditure that takes place within the geographical boundaries of Jamaica, whether made by residents or non-residents. It excludes income taxes, charitable donations such

as offerings, contributions made to pension plans, consumer savings and investments. Additionally, the revised CPI excludes some expenditures such as life insurance, betting and gaming and financial services.

The geographic coverage of the CPI is national. On a monthly basis, prices are collected from outlets across all fourteen (14) parishes of Jamaica, in both urban and rural areas. The CPI is designed to produce reliable estimates at both the regional and national levels. The reporting regions for the CPI are:

1. Greater Kingston Metropolitan Area (GKMA) which includes Kingston, Urban St. Andrew, Portmore, Spanish Town and Bull Bay;
2. Other Urban Centres (OUC) which includes representing parish capitals and other main towns); and
3. Rural Areas (representing all other areas).

The indices from all regions are aggregated to produce the All Jamaica “All-Items” CPI.

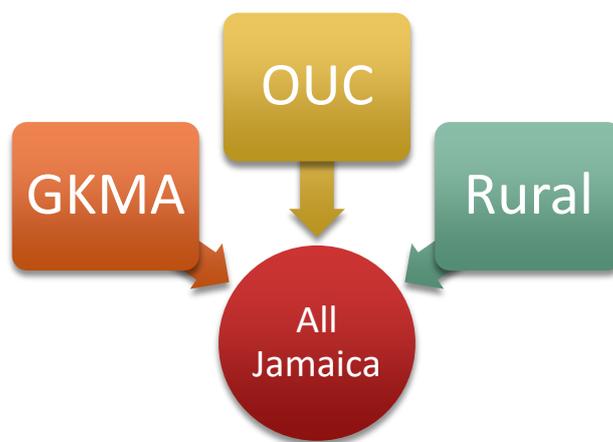


Figure 1: CPI Reporting Regions

### CONCEPTUAL FRAMEWORK

The concepts and definitions of the CPI are based on *The Consumer Price Index Manual Theory and Practice*<sup>1</sup>. The base price reference period for the new series is the calendar year 2019 and the weights are based on the 2017 HES.

The acquisition approach is used to compile the CPI. This approach measures the cost of acquiring a good or service during a given period, whether or not it was used or consumed during that period.

### CLASSIFICATION STRUCTURE

All commodities in the CPI are divided into major expenditure divisions based on the **Classification of Individual Consumption According to Purpose (COICOP)**. The United Nations endorses this consumption classification system for use in CPIs; the most recent version was published in 2018. This 2018 classification was used in the compilation of the new CPI series. The classification now has 13 broad expenditure divisions, compared to 12 in the 1999 version. Table 1 is a mapping of the 2018 and 1999 COICOP divisions.

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<sup>1</sup> ILO/IMF/OECD/UNECE/Eurostat/The World Bank. (2004). Consumer price index manual: Theory and practice. Geneva: International Labour Office.

**Table 1: Mapping of 2018 and 1999 COICOP Broad Expenditure Divisions**

2018 COICOP Broad Expenditure Divisions	1999 COICOP Broad Expenditure Divisions
01 Food and Non-Alcoholic Beverages	01 Food and Non-Alcoholic Beverages
02 Alcoholic Beverages, Tobacco and Narcotics	02 Alcoholic Beverages, Tobacco
03 Clothing and Footwear	03 Clothing and Footwear
04 Housing, Water, Electricity, Gas and Other Fuels	04 Housing, Water, Electricity, Gas and Other Fuels
05 Furnishings, Household Equipment and Routine Household Maintenance	05 Furnishings, Household Equipment and Routine Household Maintenance
06 Health	06 Health
07 Transport	07 Transport
08 Information and Communication	08 Communication
09 Recreation, Sport and Culture	09 Recreation and Culture
10 Education Services	10 Education
11 Restaurants and Accommodation services	11 Restaurants and Accommodation Services
12 Insurance and Financial Services	12 Miscellaneous Goods and Services
13 Personal Care, Social Protection and Miscellaneous Goods and Services	

### KEY CHANGES FROM COICOP 1999 TO COICOP 2018

#### HEALTH (DIVISION 06)

Division 06 was restructured to allow for a better alignment of COICOP with the International Classification for Health Accounts and its family of classifications.

#### INFORMATION AND COMMUNICATION (DIVISION 08) AND RECREATION, SPORT AND CULTURE (DIVISION 09)

To better reflect a household's use of information and communication technology, some goods and services were removed from Division 09 to Division 08. Division 08 (formerly Communication) was renamed as *Information and Communication*. Division 09 (formerly *Recreation and Culture*) was renamed as *Recreation, Sport and Culture* to better reflect the coverage of the Division.

#### INSURANCE AND FINANCIAL SERVICES (DIVISION 12) AND PERSONAL CARE, SOCIAL PROTECTION AND MISCELLANEOUS GOODS AND SERVICES (DIVISION 13)

Division 12 of COICOP 1999 was divided into two homogeneous Divisions in COICOP 2018 – Division 12 *Insurance and Financial Services*, and Division 13 *Personal Care, Social Protection, and Miscellaneous Goods and Services*. Previously, personal care, social protection, and miscellaneous goods were included in Division 12 of COICOP 1999.

Additionally, new sub-classes were introduced at the more detailed levels for most Divisions. The introduction of these new sub-classes facilitates further harmonization of data collection and aggregation, thus improving the comparability of the statistics.

#### BASKET OF GOODS AND SERVICES

The primary purpose of updating the CPI at periodic intervals is to ensure that the “basket” is in alignment with the current spending habits of the target population. This involves a review of the “basket” to include new items or delete items that are no longer significant or important.

The new basket is comprised of 318 commodities. A commodity may be broken down into more than one item for which price data are collected. For example, the commodity bread includes the items hard-dough bread and whole-wheat bread.

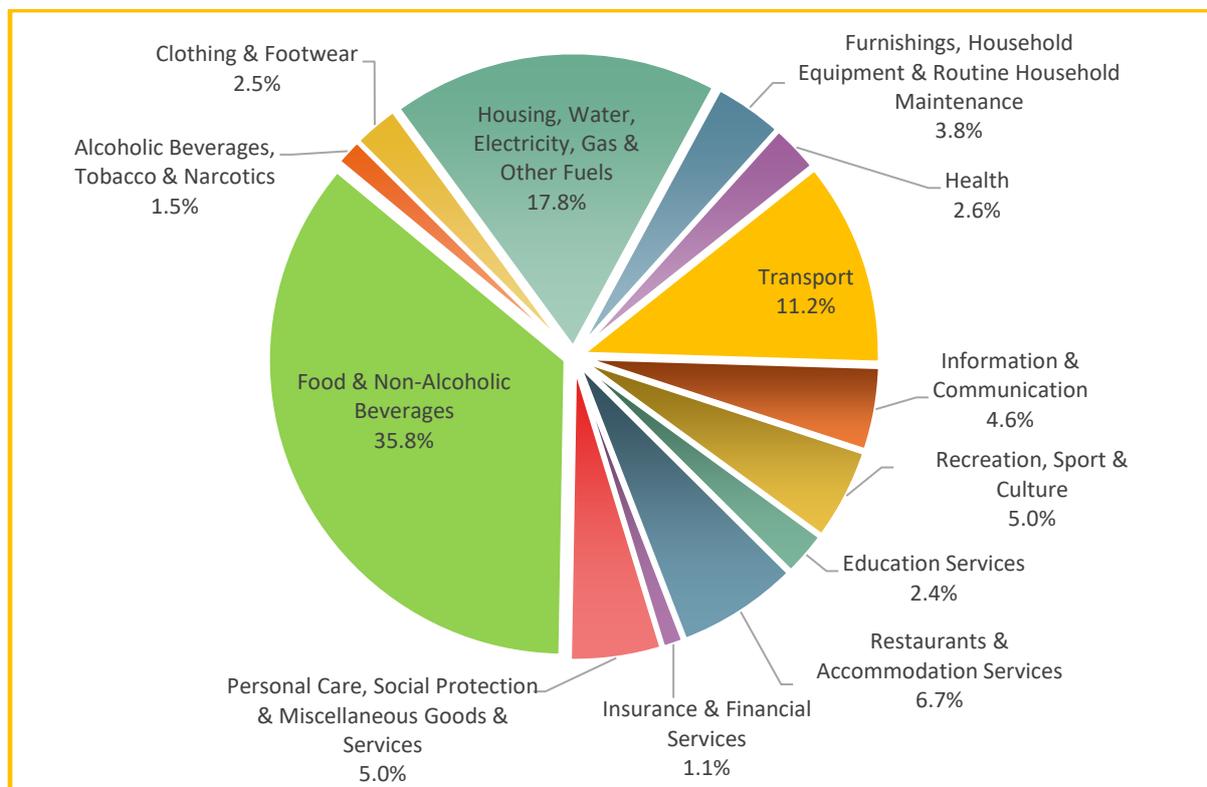


Figure 2: CPI Weights by COICOP Broad Expenditure Divisions

Each item, class, group and division in the basket is assigned a weight which reflects its relative importance. The weight is the percentage share of expenditure to total expenditure. Table 2 shows the weights by the 2018 COICOP divisions for the current and previous CPI.

Table 2: CPI Weights by COICOP Broad Expenditure Divisions, Current and Previous

2018 COICOP Broad Expenditure Divisions		Current Weights	Previous Weights
01	Food & Non-Alcoholic Beverages	35.8	37.5
02	Alcoholic Beverages, Tobacco & Narcotics	1.5	1.4
03	Clothing & Footwear	2.5	3.3
04	Housing, Water, Electricity, Gas & Other Fuels	17.8	12.8
05	Furnishings, Household Equipment & Routine Household Maintenance	3.8	4.9
06	Health	2.6	3.3
07	Transport	11.2	12.8
08	Information & Communication	4.6	4.0
09	Recreation, Sport & Culture	5.0	3.4
10	Education Services	2.4	2.1
11	Restaurants & Accommodation Services	6.7	6.2
12	Insurance & Financial Services	1.1	8.4
13	Personal Care, Social Protection & Miscellaneous Goods & Services	5.0	
<b>Total</b>		<b>100.0</b>	<b>100.0</b>

### ITEM SELECTION

The level of expenditure on an item and the feasibility of obtaining accurate and reliable prices were the main criteria used for inclusion in the new basket. Items with an expenditure weight of 0.5 per cent or

higher were selected for inclusion in the basket. Where the expenditure on an item was less than 0.5 per cent, its weight was re-distributed proportionately among the other items in the related category. However, where there was only one item in a group, it was selected regardless of its weight.

### PRICE COLLECTION

The CPI is designed to measure price changes for a fixed basket of goods and services. The data collectors are provided with detailed descriptions, including brand and size, of the characteristics of each product.

STATIN's Field Officers collect prices for most items monthly from outlets such as: grocery stores, markets, clothing and footwear stores, furniture and appliance shops, garages, doctors, dentists, law offices, schools, insurance companies and beauty and barber salons. Data collection is done twice monthly for items with volatile price movements such as petroleum and agricultural products. Prices are collected quarterly and annually for items such as school fees.

Additionally, price data for labour rates, telephone and electricity charges, and education and hospital fees are collected from the appropriate authorities. In total, over 10,000 individual price quotations are collected each month to compile the CPI.

### OUTLET SELECTION

The outlets for the CPI were selected using data from the HES, as well as information from administrative sources, and expert interviews. The CPI outlets are primarily located in commercial districts across Jamaica, where the majority of householders shop.

### MEASURES IMPLEMENTED TO IMPROVE THE CPI

- Data collection has been transferred to the Survey Solutions platform, developed and supported by the World Bank. This allows for better monitoring and verification of data collection activities and includes the use of GPS tracking.
- Data collection has increased to twice monthly for items with volatile price movements such as petroleum and agricultural products. Prices for these products are collected in the usual first full week and the third week of the month.
- The sample frame and survey design for the House Rental Survey (HRS), which feeds into the CPI, was updated in 2018. The new design incorporates a half rotating panel design and is consistent with international best practices for rental surveys of this kind. The HRS is now done quarterly and provides information on the amounts paid for the rental of private dwelling units.
- The base price reference period is the calendar year 2019. The use of a calendar year ensures that seasonal prices are incorporated in the calculation of the base price. The previous series used a single month for the base period.
- Other international recommendations, such as the lead time and twice monthly collection for airfares, the use of regression analysis for imputed rent and quality adjustments, have also been incorporated.