

DOWNLOAD PDF TOWARDS A BETTER UNDERSTANDING OF THE CONSUMER PRICE INDEX

Chapter 1 : Inflation vs. Consumer Price Index (CPI), How They Are Different | US Inflation Calculator

Towards a better understanding of the consumer price index is top selling of this month.

Weighting[edit] Weights and sub-indices[edit] By convention weights are fractions or ratios summing to one, as percentages summing to or as per mille numbers summing to The weights for these sub-indices will consist of the sum of the weights of a number of component lower level indices. The classification is according to use, developed in a national accounting context. This is not necessarily the kind of classification that is most appropriate for a consumer price index. Grouping together of substitutes or of products whose prices tend to move in parallel might be more suitable. For some of these lower level indices detailed reweighing to make them be available, allowing computations where the individual price observations can all be weighted. This may be the case, for example, where all selling is in the hands of a single national organisation which makes its data available to the index compilers. For most lower level indices, however, the weight will consist of the sum of the weights of a number of elementary aggregate indices, each weight corresponding to its fraction of the total annual expenditure covered by the index. Weighted averages of elementary aggregate indices e. Weight averages of these in turn provide sub-indices at a higher, more aggregated level, e. In the case of such products like newspapers in some countries and postal services, which have nationally uniform prices. An example might be an elementary aggregate for sliced bread sold in supermarkets in the Northern region. However, in cases where it is possible to select the sample of outlets from which prices are collected so as to reflect the shares of sales to consumers of the different outlet types covered, self-weighted elementary aggregate indices may be computed. Similarly, if the market shares of the different types of product represented by product types are known, even only approximately, the number of observed products to be priced for each of them can be made proportional to those shares. Estimating weights[edit] The outlet and regional dimensions noted above mean that the estimation of weights involves a lot more than just the breakdown of expenditure by types of goods and services, and the number of separately weighted indices composing the overall index depends upon two factors: The degree of detail to which available data permit breakdown of total consumption expenditure in the weight reference-period by type of expenditure, region and outlet type. Whether there is reason to believe that price movements vary between these most detailed categories. How the weights are calculated, and in how much detail, depends upon the availability of information and upon the scope of the index. In the UK the retail price index RPI does not relate to the whole of consumption, for the reference population is all private households with the exception of a pensioner households that derive at least three-quarters of their total income from state pensions and benefits and b "high income households" whose total household income lies within the top four per cent of all households. The result is that it is difficult to use data sources relating to total consumption by all population groups. For products whose price movements can differ between regions and between different types of outlet: The ideal, rarely realisable in practice, would consist of estimates of expenditure for each detailed consumption category, for each type of outlet, for each region. At the opposite extreme, with no regional data on expenditure totals but only on population e. The situation in most countries comes somewhere between these two extremes. The point is to make the best use of whatever data are available. The nature of the data used for weighing[edit] No firm rules can be suggested on this issue for the simple reason that the available statistical sources differ between countries. However, all countries conduct periodical household-expenditure surveys and all produce breakdowns of consumption expenditure in their national accounts. The expenditure classifications used there may however be different. Household-expenditure surveys do not cover the expenditures of foreign visitors, though these may be within the scope of a consumer price index. National accounts include imputed rents for owner-occupied dwellings which may not be within the scope of a consumer price index. Even with the necessary adjustments, the national-account estimates and household-expenditure surveys usually diverge. The statistical sources required for regional and outlet-type breakdowns are usually weak. Only a large-sample

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Household Expenditure survey can provide a regional breakdown. Regional population data are sometimes used for this purpose, but need adjustment to allow for regional differences in living standards and consumption patterns. Statistics of retail sales and market research reports can provide information for estimating outlet-type breakdowns, but the classifications they use rarely correspond to COICOP categories. The increasingly widespread use of bar codes, scanners in shops has meant that detailed cash register printed receipts are provided by shops for an increasing share of retail purchases. This development makes possible improved Household Expenditure surveys, as Statistics Iceland has demonstrated. Survey respondents keeping a diary of their purchases need to record only the total of purchases when itemised receipts were given to them and keep these receipts in a special pocket in the diary. These receipts provide not only a detailed breakdown of purchases but also the name of the outlet. Thus response burden is markedly reduced, accuracy is increased, product description is more specific and point of purchase data are obtained, facilitating the estimation of outlet-type weights. There are only two general principles for the estimation of weights: Reweighting[edit] Ideally, in computing an index, the weights would represent current annual expenditure patterns. In practice they necessarily reflect past using the most recent data available or, if they are not of high quality, some average of the data for more than one previous year. Some countries have used a three-year average in recognition of the fact that household survey estimates are of poor quality. In some cases some of the data sources used may not be available annually, in which case some of the weights for lower level aggregates within higher level aggregates are based on older data than the higher level weights. Infrequent reweighing saves costs for the national statistical office but delays the introduction into the index of new types of expenditure. For example, subscriptions for Internet service entered index compilation with a considerable time lag in some countries, and account could be taken of digital camera prices between re-weightings only by including some digital cameras in the same elementary aggregate as film cameras. Owner-occupiers and the price index[edit] The way in which owner-occupied dwellings should be dealt with in a consumer price index has been, and remains, a subject of heated controversy in many countries. Various s have been considered, each with their advantages and disadvantages. These include the service provided by rented accommodation, which can readily be priced, and the similar services yielded by a flat or house owned by the consumer who occupies it. Its cost to a consumer is, according to the economic way of thinking, an "opportunity cost", namely what he or she sacrifices by living in it. This cost, according to many economists, is what should form a component of a consumer price index. Opportunity cost can be looked at in two ways, since there are two alternatives to continuing to live in an owner-occupied dwelling. This can be called the "alternative cost" approach. The other, the "rental equivalent" approach, is to let it to someone else for the year, in which case the cost is the rent that could be obtained for it. Thus, with the alternative cost approach, if house prices are rising fast the cost can be negative and then become sharply positive once house prices start to fall, so such an index would be very volatile. On the other hand, with the rental equivalent approach, there may be difficulty in estimating the movement of rental values of types of property which are not actually rented. If one or other of these measures of the consumption of the services of owner-occupied dwellings is included in consumption, then it must be included in income too, for income equals consumption plus saving. This means that if the movement of incomes is to be compared with the movement of the consumer price index, incomes must be expressed as money income plus this imaginary consumption value. That is logical, but it may not be what users of the index want. Although the argument has been expressed in connection with owner-occupied dwellings, the logic applies equally to all durable consumer goods and services. Furniture, carpets and domestic appliances are not used up soon after purchase in the way that food is. Like dwellings, they yield a consumption service that can continue for years. Furthermore, since strict logic is to be adhered to, there are durable services as well that ought to be treated in the same way; the service consumers derive from appendectomies or crowned teeth continue for a long time. Since estimating values for these components of consumption has not been tackled, the economic theorists are torn between their desire for intellectual consistency and their recognition that inclusion of the opportunity cost of the use of durables is impracticable.

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This turns out to be quite complicated, conceptually as well as in practice. To explain what is involved, consider a consumer price index computed with reference to for just one sole consumer who bought her house in , financing half of this sum by raising a mortgage. The problem is to compare how much interest such a consumer would now be paying with the interest that was paid in . It does not require an estimate of how much that identical person is paying now on the actual house she bought in , even though that is what personally concerns her now. A consumer price index compares how much it would cost now to do exactly what consumers did in the reference-period with what it cost then. Application of the principle thus requires that the index for our one house owner should reflect the movement of the prices of houses like hers from to and the change in interest rates. If she took out a fixed-interest rate mortgage it is the change in interest rates from to that counts; if she took out a variable interest mortgage it is the change from to that counts. Thus her current index with as reference-period will stand at more than if house prices or, in the case of a fixed-interest mortgage, interest rates rose between and . The application of this principle in the owner-occupied dwellings component of a consumer price index is known as the "debt profile" method. It means that the current movement of the index will reflect past changes in dwelling prices and interest rates. Some people regard this as odd. Quite a few countries use the debt profile method, but in doing so most of them behave inconsistently. Consistency would require that the index should also cover the interest on consumer credit instead of the whole price paid for the products bought on credit if it covers mortgage interest payments. Products bought on credit would then be treated in the same way as owner-occupied dwellings. Variants of the debt profile method are employed or have been proposed. One example is to include down payments as well as interest. Another is to correct nominal mortgage rates for changes in dwelling prices or for changes in the rest of the consumer price index to obtain a "real" rate of interest. Also, other methods may be used alongside the debt profile method. Thus several countries include a purely notional cost of depreciation as an additional index component, applying an arbitrarily estimated, or rather guessed, depreciation rate to the value of the stock of owner-occupied dwellings. Finally, one country includes both mortgage interest and purchase prices in its index. Transaction prices[edit] The third approach simply treats the acquisition of owner-occupied dwellings in the same way as acquisitions of other durable products are treated. Taking account of the transaction prices agreed; Ignoring whether payments are delayed or are partly financed by borrowing; Leaving out second-hand transactions. Second-hand purchases correspond to sales by other consumers. Thus only new dwellings would be included. Furthermore, expenditure on enlarging or reconstructing an owner-occupied dwelling would be covered, in addition to regular maintenance and repair. Two arguments of an almost theological character are advanced in connection with this transactions approach. One argument is that purchases of new dwellings are treated as Investment in the System of National Accounts, so should not enter a consumption price index. It is said that this is more than just a matter of terminological uniformity. For example, it may be thought to help understanding and facilitate economic analysis if what is included under the heading of Consumption is the same in the consumer price index and in the national income and expenditure accounts. Since these accounts include the equivalent rental value of owner-occupied dwellings, the equivalent rental approach would have to be applied in the consumer price index too. But the national accounts do not apply it to other durables, so the argument demands consistency in one respect but accepts its rejection in another. The other argument is that the prices of new dwellings should exclude that part reflecting the value of the land, since this is an irreproducible and permanent asset that cannot be said to be consumed. This would presumably mean deducting site value from the price of a dwelling, site value presumably being defined as the price the site would fetch at auction if the dwelling were not on it. How this is to be understood in the case of multiple dwellings remains unclear.

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Chapter 2 : USDA ERS - Summary Findings

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Understanding consumer behavior is a broad and complicated task, but with the right research mix you can begin to get a detailed understanding of your customers and their motivations. What is consumer behavior? Consumer behavior is the study of individuals and organizations and how they select and use products and services. It is mainly concerned with psychology, motivations, and behavior. The study of consumer behavior includes: How consumers think and feel about different alternatives brands, products, services, and retailers How consumers reason and select between different alternatives The behavior of consumers while researching and shopping How consumer behavior is influenced by their environment peers, culture, media How marketing campaigns can be adapted and improved to more effectively influence the consumer These considerations are influenced by three factors: These will be affected by demographics such as age, gender, culture, profession, background and so on. This factor also includes social class, income, and education level. Some are more cost effective than others. Focus groups “ Bring a group of consumers together and ask them questions directly. It also helps to reveal the language they are using. Google Analytics “ Analytics can be used to tell you where your traffic is coming from. The Audience tab shows geography, interests, and a range of demographics. Read our post on the top competitor analysis tools. Blog comments “ Comments on your blog can be a good way of discovering any questions your audience might have. Social media “ Millions of people reflect their lives on social media, so information that can enrich several strands of consumer behavior can be uncovered with the right tools. Social intelligence and consumer behavior The broadest thing social can help with is collecting consumer insights, found through social media research , which can take all sorts of forms. You can ask specific questions, or investigate consumers talking about your brand. Sentiment analysis “ Understand the sentiment about your brand or product, and how that changes in different demographics. Intelligent market segmentation “ As everyone has different motivations, segmenting consumers into groups is vital to understanding your customers in a nuanced way.

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Chapter 3 : Strong U.S. Consumer Price Index (CPI) to Rattle EUR/USD Rate Rebound

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Download as PDF 1. However, the RPI uses a formula that does not meet international best practice and as a result its designation as a National Statistic was cancelled in We now only publish RPI-related data that is essential to the needs of users. We have allocated appropriate resources. The aim of this development plan is to provide you with information on the plans in place for the development of consumer price statistics, how this work feeds into the ONS business plan and to show that appropriate resources have been allocated to this plan and that we are aware of the potential risks. Back to table of contents 2. This strategy is reflected in the directorate business plan for National Accounts and Economic Statistics NAES , which sets out how the directorate will contribute to fulfilling the strategy for UK statistics. The purpose of the Prices business plan is to set a local vision and set of objectives that aligns the work programme of prices with that of the NAES directorate and UK statistics. The vision for Prices division aims to align the work programme with the wider vision for NAES and ONS, reflecting the need to continually improve what we do and to make the shift towards the transformation, both in our systems and people, needed in the delivery of inflation statistics. The vision for Prices division is therefore: Quality and relevant price statistics that are produced Improving: Keeping pace with evolving methods, sources and digital processes 3. The consultation followed a review led by Mr Paul Johnson commonly referred to as the Johnson Review , which took a comprehensive look at how inflation is measured in the UK and made a series of recommendations about the future development of these statistics3. We expect that our top priorities for the next few years will be to: Therefore we will review and update this work programme periodically and an update will be provided each September to the UK Statistics Authority Board via the National Statistician. In updating the work programme, we will seek the guidance of the Advisory Panels on Consumer Prices and engage with experts and users of these statistics. High priority High priority items are the cornerstone of the development programme and if necessary will be prioritised over the delivery of medium and low priority items. High priority items are listed in order of implementation of the first deliverable. The range of measures needed to meet user needs Overview The National Statistician has alluded to the range of measures needed to meet user needs, which is based on three recognised user needs. The first is the need for a set of measures based on macroeconomic principles, calculated consistently with economic concepts and approaches. The second user need is in measuring the household experience, looking at changes in household outgoings or costs as they are experienced. To meet these three user needs we need to: Data collection strategy for consumer price statistics Overview Improvements in technologies have resulted in new, alternative, sources of price data, which could be used in the compilation of price indices. There are two main alternative data sources that could be used, specifically: We currently have several streams of research looking at these alternative sources of data. These cover a number of areas including: It also ties in with another ESCoE project on improving the quality of regional economic indicators in which one area of work is to look at how to construct regional price indexes using new data sources. Implementation Publication of the Data Collection Strategy for consumer prices; early Implementation of improvements to rail fares; early 3. Following the consultation the National Statistician decided that the HCIs could serve as an important complement to the suite of consumer price indices. Feedback was provided by a number of important users, as well as the Advisory Panels on Consumer Prices. A summary of the feedback received, along with next steps to further develop the indices, was published in December Work has now commenced to develop these indices, releasing focused analytical articles through and beyond, that will help shape the production of the final measure. ONS has subsequently engaged with its advisory panels on a number of development issues. Initial experimental indices were published in December but there are a number of concepts that will need to be explored further. Following the consultation on consumer price statistics, the National Statistician reached

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the decision that ONS should produce comparable measures of income and price change for different household groups on an annual basis in one publication. We will engage with users to shape further development of the measures. As such Household Costs Indices may be appropriate to be matched to a microeconomic measure of income. Developing CPIH sub-groups Overview Research we published in shows that different household groups can experience different rates of inflation. Many users have since expressed interest in seeing updates and improvements to this work. The indices could be developed further by differentiating between different products purchased, producing specific prices indices for each household group. As such, CPIH sub-groups may be appropriate to be matched to a macroeconomic measure of income. Household sub-groups will also be produced for the HCIs work and so this item will be co-ordinated with the previous one. Implementation Engage with users on the best way to proceed with producing CPIH indices for different household groups; Quarter 1 Jan to Mar Initiate a quarterly production of CPIH sub-group indices; mid Increase frequency of income and price change publications, using nowcasting techniques to improve the frequency of income measures; 3. Improving clothing measurement in consumer price inflation statistics Overview In , we made a number of changes to the methodology used to collect clothing prices. These changes meant that the gap between RPI and CPI, which use different formulae at the lowest level of aggregation¹⁰, widened. Constructing price indices for clothing items can be problematic. This is because the high product turnover associated with fashion items makes it difficult to identify comparable replacements. We will continue to explore the measurement of clothing prices through analysis of the web-scraped clothing data provided by WGSN see use of alternative data sources , as well as considering other ways that the measurement of clothing price changes could be improved. We will seek the advice of the Advisory Panels for Consumer Prices in this matter. Implementation Report on alternatives to matching and compare methods; Quarter 3 July to Sept Report on methodology and compare methods; Quarter 4 Oct to Dec Criteria for elementary aggregates and impact assessment; Quarter 1 Jan to Mar Proposal on improvements to clothing; Quarter 1 3. The current time series extends back to , which is when the rental data sources used to calculate the OOH component for England began. A modelled historical series has previously been estimated for the CPI Implementation Publish a methods paper for developing a historical series; late Seek user views on the methods paper; Quarter 1 Jan to Mar Finalised series publish; mid 3. Medium priority items are listed in order of implementation of the first deliverable. We are working to ensure compliance through implementing a temporal sample for fresh fruit and vegetables, and improvements to the methodology for package holidays. Prices for fresh fruit and vegetables are collected on a single Index Day, a Tuesday, in or around the middle of the month. To address temporal sampling requirements, a second collection day for fresh fruit and vegetables will be implemented in , following a parallel run in This is because price relatives for package holidays are calculated by comparing the price in the current month with the price the same month a year ago, rather than comparing the price with December. Work is underway to develop an improved methodology. Implementation Introduction of temporal sampling for fresh fruit and vegetables; March Implementation of improvement to package holidays; early 3. There are two dimensions to the sampling: The sampling involves purposive sampling of both items and outlets. The CPIH weights come from a variety of sources. Some are administrative sources, some are survey-based. They are then put through national accounts balancing. This all makes the estimation of sampling errors difficult. Annual rates of change in the price index are ratio estimates, usually over a chain link, so there may be correlations between prices in successive periods that need to be taken into account. Estimates of the variance due to the variance in the Living Costs and Food LCF data used as weights are currently being investigated. These will give an indication of some part of the accuracy of CPIH. Implementation Further analysis and refinement; early Estimates of the sampling errors associated with central items; mid 3. The Johnson Review considered quality change and recommended ONS provides more information to explain how quality change is monitored. In response to the consultation on consumer price statistics, some users suggested that ONS should devote more resources to improving and monitoring methods of quality adjustment. In particular the quality adjustment of services could be given more consideration. To

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address these findings we will launch a project to review quality adjustment methods used in consumer price inflation statistics and provide more detail on how quality adjustment is monitored. Implementation Report on quality adjustment methods used and how quality adjustment is monitored; Quarter 1 Jan to Mar 3. We intend to explore these potential developments to further improve the effectiveness of CPIH as a measure of inflation. These are described in this section. As a result the existing CPI private rental data series for Northern Ireland has continued to be used. Since then the coverage across Northern Ireland has improved and the data are now available monthly. We have received an extract of these data from NIHE and started analysis with the ultimate aim of producing a rental index suitable for inclusion in OOH in However, the property type split is not available on a regional basis, so the same property type split is applied across all regions. We will explore other potential sources of data to improve the stratification. The Johnson Review¹⁴ identified that recent research into the measurement of rental equivalence has suggested using a flow measure new lets only , rather than a stock measure new and existing lets. We will also explore the appropriateness of using this new approach to measuring rental equivalence costs. Implementation New rental data source for Northern Ireland implemented in OOH; early Improved property type split for stratum weights; Present findings from investigation into stock and flow measures of rental equivalence; 3. The regular collection of prices for consumer price inflation statistics is optimised for measuring inflation at the UK level. Prices are collected locally in locations spread across Scotland, Wales, Northern Ireland and the nine regions of England. As a result, the number of locations visited per region is small, making the data less suitable for regional indices. Additionally, the prices for many products are collected centrally with no regional breakdown. The viability of using the existing price data to produce more geographically-disaggregated price indices was assessed in a feasibility report published in November We aim to build on the findings of this report to work towards more robust regional price indices for the UK. Implementation Ongoing development work towards the production of regional price indices; 3. While the sample has been updated using rotation of locations and selection of outlets, the location boundaries need to be updated to reflect changing expenditure patterns. Eight new location boundaries are being piloted in and in another 15 new location boundaries will be piloted. The new boundaries will be rolled-out over a five-year period starting in January Implementation Roll-out of new boundaries; January 3. Low priority items are listed in order of implementation of the first deliverable. Single product discounts available to all consumers without conditions are captured in consumer price statistics. However, many other types of discounts, such as multi-buy offers or loyalty schemes are excluded.

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Chapter 4 : Netherlands - Inflation rate | Statistic

A Consumer Price Index of indicates 58% inflation since , while a CPI index of would indicate % inflation since The commonly quoted inflation rate of say 3% is actually the change in the Consumer Price Index from a year earlier.

It is the most widely watched and used measure of the U. For several years, there has been controversy about whether the CPI overstates or understates inflation, how it is measured and whether it is an appropriate proxy for inflation. The Controversy Originally, the CPI was determined by comparing the price of a fixed basket of goods and services in two different periods. However, over time, the U. Congress embraced the view that the CPI should reflect changes in the cost to maintain a constant standard of living. Over the years, the methodology used to calculate the CPI has also undergone numerous revisions. The new methodology takes into account changes in the quality of goods and substitution. Substitution, the change in purchases by consumers in response to price changes , changes the relative weighting of the goods in the basket. The overall result tends to be a lower CPI. Williams prefers a CPI, or inflation measure, calculated using the original methodology based on a basket of goods having quantities and qualities fixed. What is immediately apparent is that three different definitions of the CPI are being used. Since these definitions are not operationally equivalent, each method of measuring inflation would lead to different results. Different CPI or Inflation Levels It does appear that the different means of measuring inflation produce disparate indications of inflation for the same period. Therefore, a prudent investor may wish to obtain more insight and a better understanding of these disparate views of CPI and inflation measures and the effects they may have on their investment decisions. Implications for Required Return Rates Investors must calculate their total required rate of return RRR on a nominal basis, taking into account the effect of inflation. The nominal, annual required total return can be approximated as the real required return plus the rate of inflation. For short investment horizons, the approximate method works well. However, for longer investment horizons such as 20 or greater years , a slightly different method should be used because the approximate method will introduce additional inaccuracy, which will be compounded as the investment horizon increases. A more accurate estimate of the nominal, annual required total return is calculated as the product of one plus the annual inflation rate and one plus the required annual real rate of return. The results tabulated below clearly show that as the difference between the inflation rate and the real rate of return increases, the difference between the approximated and the accurately determined total required returns increases.

Chapter 5 : Towards a better understanding of the consumer price index - blog.quintoapp.com

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated.

Chapter 6 : Consumer Price Index (CPI)

An inflation index is an economic tool used to measure the rate of inflation in an economy. There are several different ways to measure inflation, leading to more than one inflation index with different economists and investors preferring one method to another, sometimes strongly. This brief.

Chapter 7 : Core inflation - Wikipedia

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. 2. How is the CPI market basket determined?

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Chapter 8 : Consumer price index - Wikipedia

The difference between the Consumer Price Index (CPI) and inflation is a source of confusion for many. At its easiest level, the Consumer Price Index in the United States is used to calculate inflation.

Chapter 9 : Strong Australia Consumer Price Index (CPI) to Fuel AUD/USD Rebound

The Consumer Price Index (CPI) is produced by the Bureau of Labor Statistics (BLS). It is the most widely watched and used measure of the U.S. inflation rate. It is also used to determine the real.