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PRESS RELEASE

A new national index of consumer prices and ten years of the HICP

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To mark the introduction of a new national index of consumer prices (NICP) in Belgium in early 2006 and almost ten years of application of the harmonised index of consumer prices (HICP) at European level, this article highlights recent methodological developments regarding the two measures. Far from insignificant, these developments are highly relevant from an economic point of view, given the key roles played both by the HICP and the NICP. In fact, the HICP is directly involved in the quantitative definition of price stability in the euro area, which is a central element of the Eurosystem's monetary policy strategy. As for the NICP and its variant known as the « health index », these form the point of reference in Belgium for the indexation of wages and salaries, the provision of social services, rents, etc.

By reviewing the NICP's basket and weightings, the 2006 reform puts an end to the significant ageing of the index. Its loss of representativeness had, in fact, become particularly pronounced in 2004 and 2005, and it was not neutral in terms of inflation. Over this period, discrepancies between inflation measured according to the NICP and that measured according to the HICP amounted to around 0.25 percentage point per annum. Thanks to the reform, the discrepancy between the NICP and the HICP should become considerably smaller from 2007 onwards. However, in 2006, the method used for the introduction of the new NICP will produce a significant downward effect on the NICP-measured inflation and the increase in the health index. It can consequently be claimed that the part of the indexations granted in 2004 and 2005, which is attributable to the obsolescence of the index, will be offset in 2006.

Of the reform's innovations, the introduction of biennial mini reforms represents significant progress in terms of improving the updating of the NICP and maintaining its representativeness. The greater flexibility of the HICP and the fact that it is more accurate in terms of adjustments for quality changes nonetheless implies that the latter remains a more precise index.

Despite the improvements recorded, a number of challenges remain both in terms of the HICP and the NICP. At European level, the most important ones are undoubtedly those relating to the treatment of the cost of housing incurred by owner-occupiers and the harmonisation and generalisation of the adjustments for quality changes. These changes apply *a fortiori* both to the Belgian HICP and even more so to the NICP, where cars are currently the only product for which adjustments for quality changes are made. Other important challenges, of concern more specifically to Belgium, are the updating of data on the structure of the retail trade (the version currently being used dating back to 1995) and the extension to a greater number of products of the elementary aggregation method based on the geometric mean. In both cases, the HICP and the NICP would better reflect the substitution effects between outlets and between products.

The importance of having a good quality measure of inflation highlights the need for sufficient resources to be allocated to compiling and continually improving the index of consumer prices. Ideally, the obsolescence of the index should be avoided in order not to have to undertake *a posteriori* corrections. These may indeed compromise the credibility of the index of consumer prices in the eyes of the public. This bears out yet again the importance of a constant monitoring of the quality and representativeness of the inflation measure.