

THE ECONOMY & YOU

Consumer Price Index (CPI)

The Consumer Price Index or CPI, as it is commonly known, is probably the most requested statistic from the ECCB member countries. Changes in prices affect everyone, whether you are a businessman calculating wage costs, or a housewife trying to stretch the budget to last until the next pay day. The changes may originate from changes in transportation costs, changes in tax rates, changes in the price of fuel, even changes in the exchange rate of the country from where goods are imported. There is a lot of interest in the CPI, and today we will talk about how those numbers are derived.

The CPI is a measure of the changes in prices of the goods and services bought by households. It is calculated monthly, and because it measures the price of the same items every month, the CPI reflects the cost of maintaining the same pattern of consumption over time. How does this work?

The CPI “shopping basket” covers the goods and services people buy for living – food, clothing, rent, furniture, fuel, medicines, transportation, entertainment, etc. There are over 300 items that are considered a typical “shopping basket”. These items are put into eleven main categories. The top category is Food, Alcoholic Beverages & Tobacco. Then there’s Housing, followed by Fuel & Light, then Clothing & Footwear, and so on. Each category is assigned a weight based on the amount of money a household generally spends on items in the specific category. For example, if 35 per cent of the expenses in your household go to food items, then the weight for the food category is 35.

The CPI is also measured in relation to a base period. This period is a date when a new shopping basket is selected. A “shopping basket”, is typically updated every five years, as people tend to change their consumption pattern over time. Data for this pattern are derived from *Household Expenditure Surveys*. For example, in January 2001, the CPI for all the ECCB member countries was updated to include things like computers and Internet access.

How does the Statistics Office collect this data? Every month, price collectors visit a predetermined set of shops, supermarkets and outlets to record the prices of the 300 items in the CPI “shopping basket”. The prices collected are then computed into an index for each of the eleven major categories. An overall index is also calculated, referred to as the “All Items” index. A change in this index is what is referred to as the “inflation rate”.

The CPI is put to many uses. Perhaps the most well-known use is in wage negotiations. Landlords may also adjust their rents based on the CPI, doctors and lawyers may adjust the price of their services based on the CPI.

Make the release of the CPI your business. Call the Statistics Office if it is late. Ask questions about the changes. Also, the next time staff from the Statistics Office visit your business place to collect prices, please welcome them. We hope you will view them with a better understanding of the long-ranging impact of the work they are doing.