

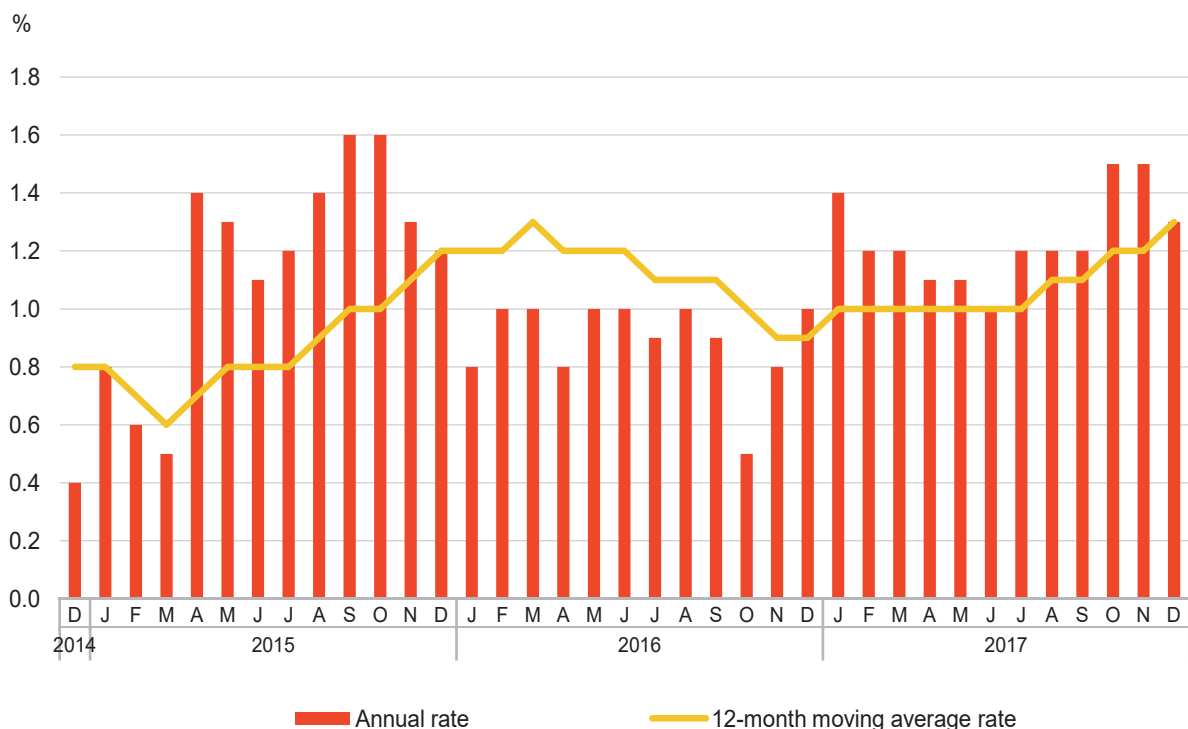
16 January 2018 | 1100 hrs | 007/2018

Harmonised Index of Consumer Prices (HICP): December 2017

1. Main points

- In December 2017, the annual rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) was registered at 1.3 per cent, down from 1.5 per cent in November 2017.
- The twelve-month moving average rate for December increased to 1.3 per cent (Table 2).
- The largest upward impact on annual inflation was recorded in the Furnishings, Household Equipment and Routine Household Maintenance Index (0.29 percentage points), mainly reflecting higher prices of furniture. The largest downward impact was recorded in the Clothing and Footwear Index (0.08 percentage points), attributed to lower prices of garments (Chart 2).
- In November 2017, the annual rate of change for Malta as measured by the HICP All-Items index was equivalent to its counterpart for the euro area (Chart 3).

Chart 1. Inflation rates



2. Overview

The Harmonised Index of Consumer Prices (HICP) measures monthly price changes in the cost of purchasing a representative basket of consumer goods and services. The HICP is calculated according to rules specified in a series of European Union Regulations that were developed by Eurostat in conjunction with the EU Member States. The HICP is used to compare inflation rates across the European Union. A closely related measure of price movements is the Retail Price Index (RPI). For a description of the differences between the HICP and the RPI, refer to page 5 of the release.

Each monthly News Release on the HICP includes three different measures of inflation:

- i. The annual inflation rate measures average price changes between the reference month and the same month of the previous year. Although responsive to recent changes in price levels, this measure can be influenced by one-off effects in either month.
- ii. The monthly inflation rate compares price changes between the reference month and the previous month. This measure can be highly influenced by seasonal effects.
- iii. The 12-month moving average rate overcomes the volatility of the above two rates by comparing the average of the latest 12 indices to the average of the previous 12 indices.

3. Price changes and effects on inflation

Table 1 shows that the highest annual inflation rates in December 2017 were registered in the following divisions: Furnishings, Household Equipment and Routine Household Maintenance (3.7 per cent) and Health (2.3 per cent). On the other hand, the lowest annual inflation rates were registered in: Clothing and Footwear (-1.4 per cent) and Alcoholic Beverages and Tobacco (-0.2 per cent).

Table 1. HICP indices

*Average 2015=100**

| Division | Weight | Indices | | | Annual rate (%) | Monthly rate (%) |
|--|-----------------|--------------|---------------|---------------|-----------------|------------------|
| | | Dec 2016 | Nov 2017 | Dec 2017 | Dec 2017 | Dec 2017 |
| Food and Non-alcoholic beverages | 165.55 | 104.62 | 105.72 | 105.66 | 1.0 | -0.1 |
| Alcoholic Beverages and Tobacco | 37.57 | 106.98 | 106.99 | 106.73 | -0.2 | -0.2 |
| Clothing and Footwear | 56.78 | 107.01 | 101.35 | 105.51 | -1.4 | 4.1 |
| Housing, Water, Electricity, Gas and Other Fuels | 82.69 | 101.13 | 102.63 | 102.62 | 1.5 | 0.0 |
| Furnishings, Household Equipment and Routine Household Maintenance | 78.46 | 104.33 | 107.86 | 108.22 | 3.7 | 0.3 |
| Health | 43.63 | 102.56 | 104.69 | 104.95 | 2.3 | 0.2 |
| Transport | 139.82 | 98.75 | 99.58 | 99.87 | 1.1 | 0.3 |
| Communication | 37.58 | 97.00 | 97.66 | 97.49 | 0.5 | -0.2 |
| Recreation and Culture | 101.50 | 96.47 | 98.33 | 98.72 | 2.3 | 0.4 |
| Education | 18.33 | 108.92 | 109.51 | 109.51 | 0.5 | 0.0 |
| Restaurants and Hotels | 162.65 | 89.38 | 92.63 | 90.38 | 1.1 | -2.4 |
| Miscellaneous Goods and Services | 75.44 | 100.79 | 102.58 | 102.62 | 1.8 | 0.0 |
| All Items | 1,000.00 | 99.55 | 100.97 | 100.88 | 1.3 | -0.1 |

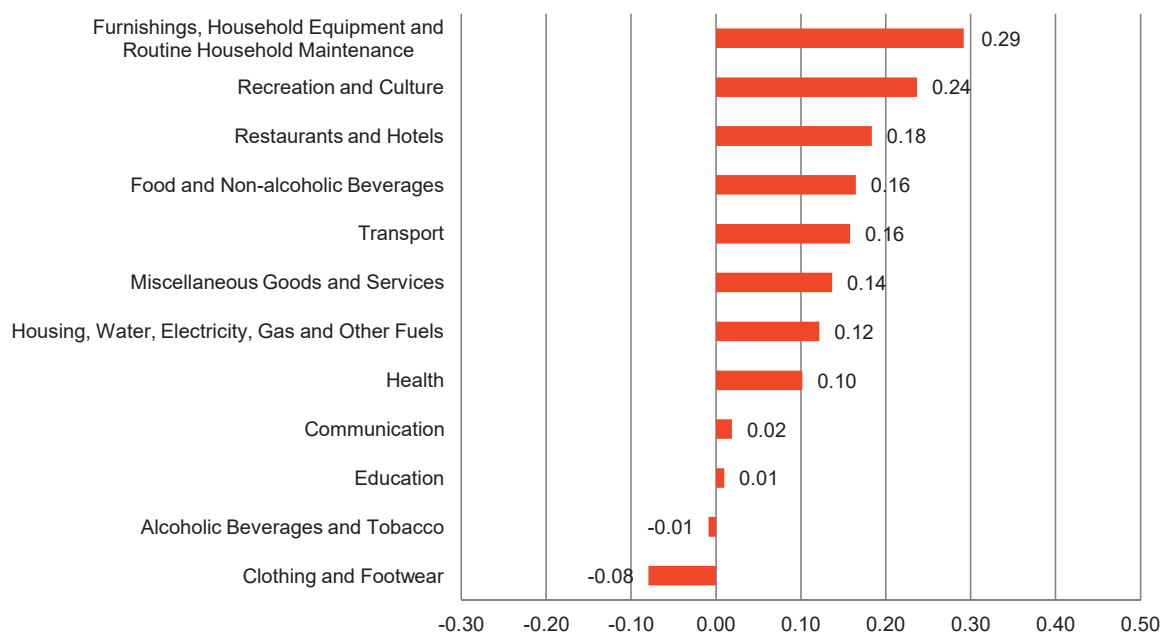
*see methodological note 5.3

Chart 2 depicts the impacts on the annual inflation rate by the 12 main divisions. An impact is a measure showing the change in inflation due to the inclusion of an index. Such an impact takes into account both the weight and the annual rate of inflation by division.

In December 2017, the largest upward impacts were registered in the Furnishings, Household Equipment and Routine Household Maintenance Index (0.29 percentage points), the Recreation and Culture Index (0.24 percentage points) and the Restaurants and Hotels Index (0.18 percentage points). These were mainly due to higher prices of furniture, cultural services and restaurant services (including cafés and similar outlets) respectively.

The Clothing and Footwear Index (0.08 percentage points) and the Alcoholic Beverages and Tobacco Index (0.01 percentage points) registered the largest downward impacts on annual inflation, mainly reflecting lower prices of garments and spirits respectively (Chart 2).

Chart 2. Contribution to the annual inflation rate by the 12 main divisions (in percentage points): December 2017



Note: Percentage point refers to the difference between two percentages.

Table 2. Inflation rates by month and year

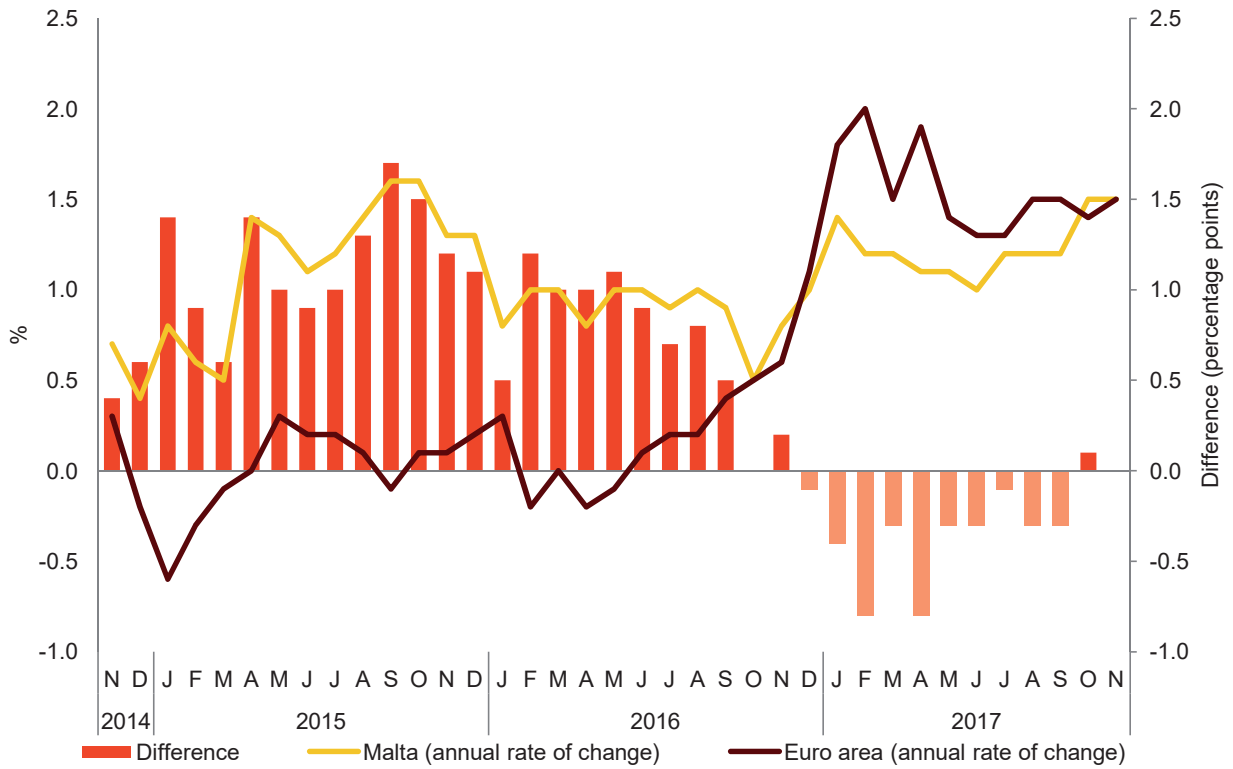
| Month | 2015 | | 2016 | | 2017 | |
|-------|-----------------|----------------------------------|-----------------|----------------------------------|-----------------|----------------------------------|
| | Annual rate (%) | 12-month moving average rate (%) | Annual rate (%) | 12-month moving average rate (%) | Annual rate (%) | 12-month moving average rate (%) |
| Jan | 0.8 | 0.8 | 0.8 | 1.2 | 1.4 | 1.0 |
| Feb | 0.6 | 0.7 | 1.0 | 1.2 | 1.2 | 1.0 |
| Mar | 0.5 | 0.6 | 1.0 | 1.3 | 1.2 | 1.0 |
| Apr | 1.4 | 0.7 | 0.8 | 1.2 | 1.1 | 1.0 |
| May | 1.3 | 0.8 | 1.0 | 1.2 | 1.1 | 1.0 |
| Jun | 1.1 | 0.8 | 1.0 | 1.2 | 1.0 | 1.0 |
| Jul | 1.2 | 0.8 | 0.9 | 1.1 | 1.2 | 1.0 |
| Aug | 1.4 | 0.9 | 1.0 | 1.1 | 1.2 | 1.1 |
| Sep | 1.6 | 1.0 | 0.9 | 1.1 | 1.2 | 1.1 |
| Oct | 1.6 | 1.0 | 0.5 | 1.0 | 1.5 | 1.2 |
| Nov | 1.3 | 1.1 | 0.8 | 0.9 | 1.5 | 1.2 |
| Dec | 1.2 | 1.2 | 1.0 | 0.9 | 1.3 | 1.3 |

4. HICP (Malta and euro area)

In November 2017, the annual rate of change registered by the Maltese HICP All-Items Index (1.5 per cent) was equivalent to its counterpart for the euro area (1.5 per cent) (Chart 3).

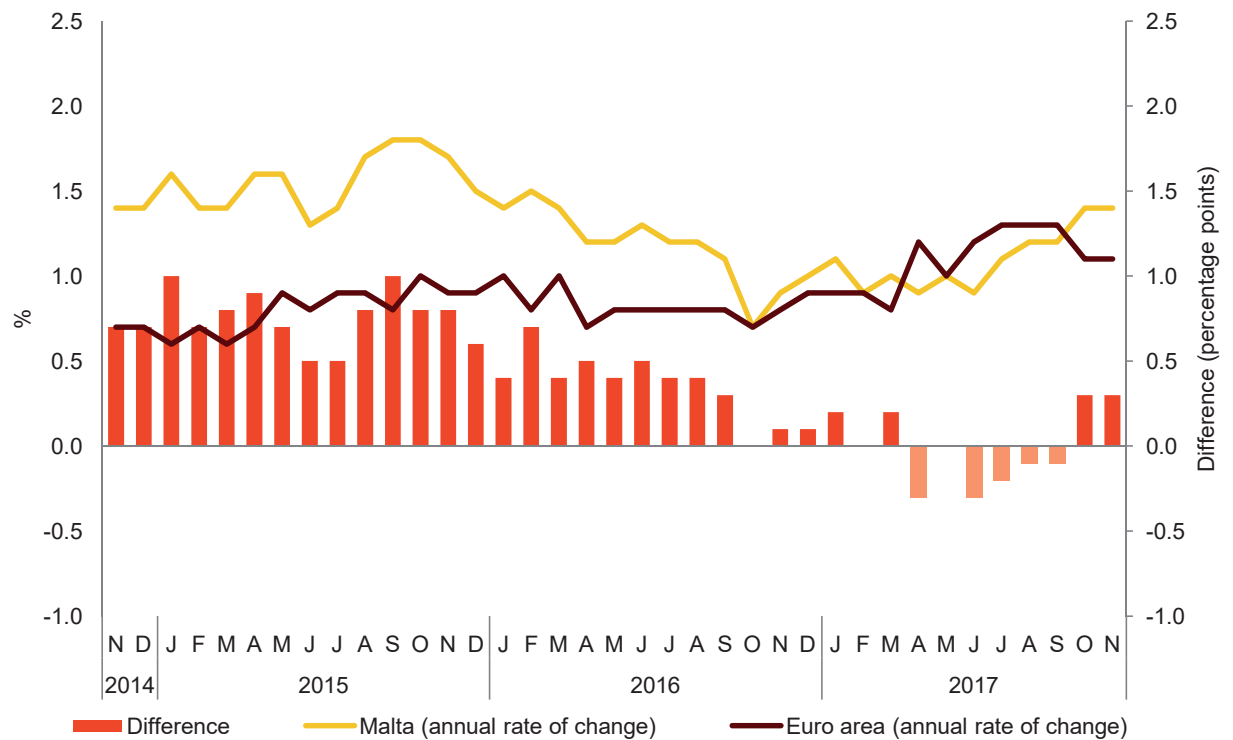
In the same month, the annual rate of change registered by the Maltese HICP All-items Index excluding energy and unprocessed food (1.4 per cent) was 0.3 percentage points higher than its counterpart for the euro area (1.1 per cent) (Chart 4).

Chart 3. All-Items HICP



Source: Eurostat

Chart 4. All-Items HICP excluding energy and unprocessed food



Source: Eurostat

5. Background notes

5.1 Accessing data

Further information on HICP and RPI NSO publications may be accessed from:

https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A5/Price_Statistics/Pages/Retail-Price-Index.aspx and https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A5/Price_Statistics/Pages/Harmonised-Index-of-Consumer-Prices.aspx, respectively. Eurostat publications on HICP may be accessed from: <http://ec.europa.eu/eurostat/news/news-releases>

5.2 Differences between HICP and RPI

Both indices are compiled using a large and representative selection of more than 440 different goods and services for which price movements are regularly monitored. Around 10,000 separate price quotations are used each month to compile the Index.

The methodology underlying HICP and RPI is similar, yet there are differences:

- i. The RPI captures private households only whereas the HICP covers private households, institutional households (such as retirement homes) and foreign visitors to Malta.
- ii. The population base year of the two indices is different. The RPI is a fixed base index with weights periodically updated in line with the HBS. On the other hand, the HICP is a chain-linked index with the weights reviewed on an annual basis. Unlike the RPI where the sample of goods and services changes every time the weights are updated, newly significant goods and services can be introduced in the HICP framework on an annual basis.
- iii. The coverage of the HICP is based on an international classification system, COICOP (Classification of Individual Consumption by Purpose), whereas the RPI has a different set of codes for each group of items.

| Group | COICOP division | Weight (out of 1000) | RPI group | Weight (out of 100) |
|-------|--|----------------------|---|---------------------|
| 1 | Food and non-alcoholic beverages | 165.55 | Food | 21.49 |
| 2 | Alcoholic Beverages and Tobacco | 37.57 | Beverages and Tobacco | 5.56 |
| 3 | Clothing and Footwear | 56.78 | Clothing and Footwear | 6.62 |
| 4 | Housing, Water, Electricity, Gas and Other Fuels | 82.69 | Housing | 7.90 |
| 5 | Furniture, Household Equipment and Routine Household Maintenance | 78.46 | Water, Electricity, Gas and Fuels | 3.31 |
| 6 | Health | 43.63 | Household Equipment and House Maintenance Costs | 6.97 |
| 7 | Transport | 139.82 | Personal Care and Health | 22.10 |
| 8 | Communication | 37.58 | Transport and Communication | 8.81 |
| 9 | Recreation and Culture | 101.50 | Recreation and Culture (including Education) | 9.90 |
| 10 | Education | 18.33 | Other Goods and Services | 7.34 |
| 11 | Restaurants and Hotels | 162.65 | | |
| 12 | Miscellaneous Goods and Services | 75.44 | | |
| | Total | 1,000.00 | Total | 100.00 |

Apart from the disparities identified above, both the RPI and the HICP:

- have the same geographic coverage, implying that both indices refer to the whole country;
- utilise the same price collection methodologies; and
- utilise the same outlet sample (with some exceptions).

5.3 Further information

The HICP is used to compare inflation rates across the European Union. It has been used by the European Central Bank (ECB) as the measure of price stability across the euro area since January 1999. Indeed, the HICP was developed in the EU for the purpose of assessing whether prospective members of the European Monetary Union would meet the inflation convergence criterion, and later acting as the measure of inflation used by the ECB to assess price stability in the euro area. The main requirement was for a measure that could be used to make reliable comparisons of inflation rates across EU Member States. Such comparisons are not possible using national consumer price indices due to differences in index coverage and construction.

The HICP is being published with 2015 as its base year. The previous series with reference 2005=100 is discontinued. Commission Regulation (EU) No 2015/2010 provides the legal basis for updating the HICP reference year from 2005=100 to 2015=100. It should be noted that the re-basing operation was conducted after rounding all past indices to one decimal place. Therefore, there might be slight differences when comparing this series with past data due to rounding.

The HICP largely follows National Accounts concepts of what constitutes household consumption in determining the index scope, and mainly uses National Accounts data sources to weight the items in the basket. This makes for increased coherence between the HICP commodity and population coverage and National Accounts principles. As a result, HICP weights are therefore based on the final consumption expenditure of all individuals in the domestic territory, including spending by private households, institutional households and foreign visitors. National Accounts principles have also influenced the classification of goods and services within this index.

The HICP weighting scheme is annually updated in accordance with Commission Regulation (EU) No 1114/2010. The treatment of seasonal items is in accordance with Commission Regulation (EC) No 330/2009.

The HICP Flash Estimates started being compiled and transmitted to Eurostat on a monthly basis as from January 2017. These refer to tentative HICP indices and are used to provide an insight to users about the annual rates of special aggregates as determined by Eurostat. Eurostat collect data from all European member countries and compile annual rates of special aggregates for the whole of the euro area. The latest release may be accessed at this link: <http://ec.europa.eu/eurostat/documents/2995521/8194206/2-31082017-BP-EN.pdf/94e77478-2a6a-4c08-9db2-98fe28263427>

Users are advised to consult the NSO before comparing the results of the HICP and the RPI.

More information on the metadata underlying HICP and RPI News Releases may be accessed from:

Source and Methods: https://nso.gov.mt/en/nso/Sources_and_Methods/Unit_A5/Price_Statistics/Pages/Harmonised-Index-of-Consumer-Prices.aspx

Statistical Concepts: <http://nso.gov.mt/metadata/concepts.aspx>

Classifications: http://nso.gov.mt/metadata/classificationdetails.aspx?id=COICOP_1999

HICP and RPI Manual:

https://nso.gov.mt/en/nso/Sources_and_Methods/Unit_A5/Price_Statistics/Documents/RPI_and_HICP_Manual.pdf

Statistical database: <http://ec.europa.eu/eurostat/web/hicp/data/database>

Any quotations from this news release are to be cited and/or referenced.

5.4 Publication policy

A calendar for future news releases may be accessed at the link:

https://nso.gov.mt/en/News_Releases/Release_Calendar/Pages/News-Release-Calendar.aspx

6. Methodological notes

6.1 Reassessments / revisions:

The HICP series is published with base year 2015 according to Eurostat base year revisions

<http://ec.europa.eu/eurostat/documents/272892/272971/HICP+reference+year+2015%3D100/> This revisions policy was published in November 2004 and is used for the calculation of consumer price inflation statistics

https://nso.gov.mt/en/nso/About_NS0/Documents/Annual_Reports/AnnualReport2004.pdf (page 64). Note that the RPI series is published in accordance to the reference base December 2016.

6.2 Time series

Data from 1996 onwards is accessible from the following link:

http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=prc_hicp_midx&lang=en