

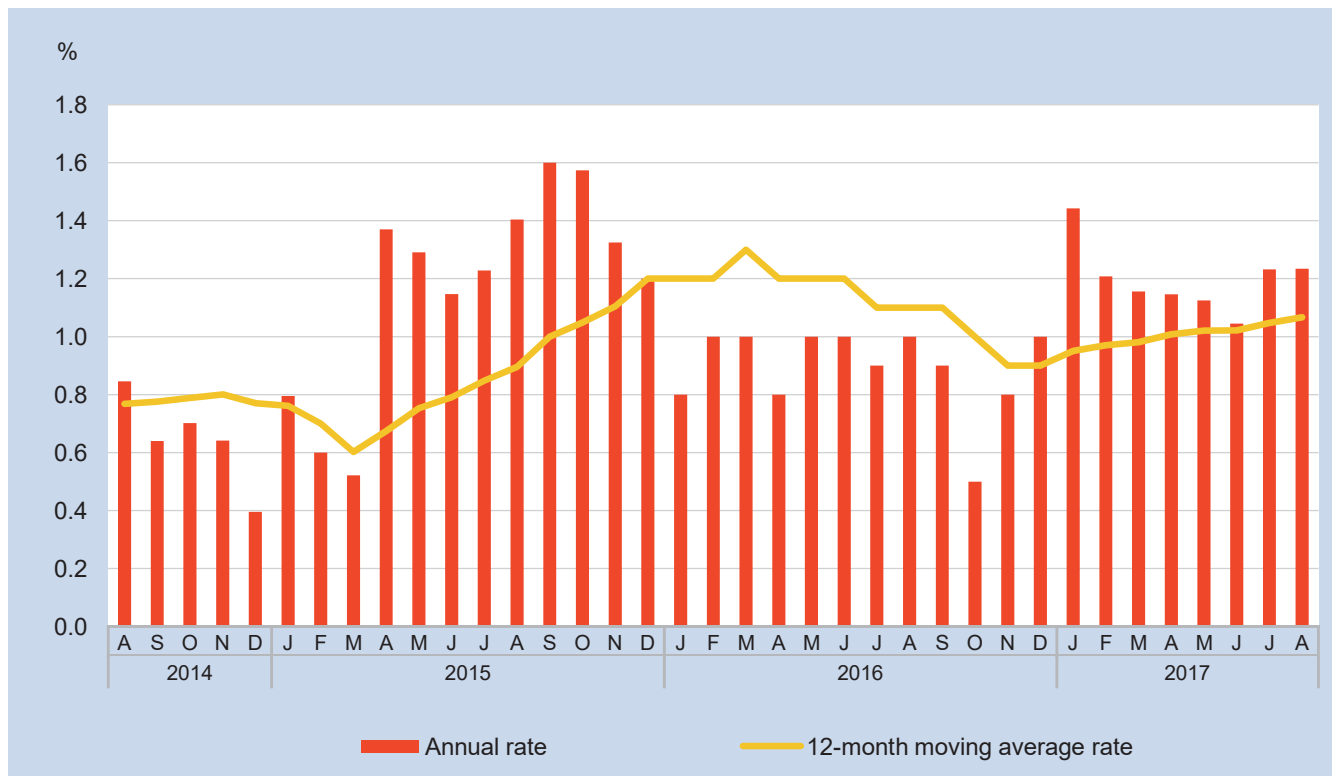
18 September 2017 | 1100 hrs | 148/2017

Harmonised Index of Consumer Prices (HICP): August 2017

1. Main points

- In August 2017, the annual rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) remained at a constant rate of 1.2 per cent.
- The twelve-month moving average rate for August stood at a rate of 1.1 per cent, up from 1.0 per cent registered in July (Table 2).
- The largest upward impact on annual inflation was registered in the Restaurants and Hotels Index (0.28 percentage points) mainly reflecting higher prices of restaurant services (including cafes and the like), while the largest downward impact was registered in the Communication Index (0.08 percentage points) attributed to lower mobile phone prices (Chart 2).
- In July 2017, the annual rate of change as measured by the Maltese HICP was 0.1 percentage points lower than that registered 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. This measure, although responsive to recent changes in price levels, can be influenced by one-off effects in either month.
- ii. The monthly inflation rate compares price changes between the reference month and 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

With reference to Table 1, the highest annual rates in August 2017 were registered in the following divisions: Education (5.3 per cent) and Alcoholic Beverages and Tobacco (2.7 per cent). On the other hand, the lowest annual inflation rates were registered in: Communication (-2.3 per cent) and Clothing and Footwear (-1.1 per cent).

Table 1. HICP indices

*Average 2015=100**

Division	Weight	Indices			Annual rate (%)	Monthly rate (%)
		Aug 2016	Jul 2017	Aug 2017	Aug 2017	Aug 2017
Food and Non-alcoholic beverages	165.55	102.11	103.44	103.81	1.7	0.4
Alcoholic Beverages and Tobacco	37.57	104.26	106.98	107.02	2.7	0.0
Clothing and Footwear	56.78	90.15	95.01	89.17	-1.1	-6.2
Housing, Water, Electricity, Gas and Other Fuels	82.69	101.41	102.36	102.58	1.2	0.2
Furnishings, Household Equipment and Routine Household Maintenance	78.46	103.69	105.84	105.77	2.0	-0.1
Health	43.63	102.17	104.11	104.33	2.1	0.2
Transport	139.82	101.20	101.44	102.43	1.2	1.0
Communication	37.58	98.21	96.08	95.91	-2.3	-0.2
Recreation and Culture	101.50	97.60	98.66	98.79	1.2	0.1
Education	18.33	105.29	110.90	110.90	5.3	0.0
Restaurants and Hotels	162.65	117.67	116.66	119.46	1.5	2.4
Miscellaneous Goods and Services	75.44	101.15	100.96	101.03	-0.1	0.1
All Items	1,000.00	103.72	104.57	105.00	1.2	0.4

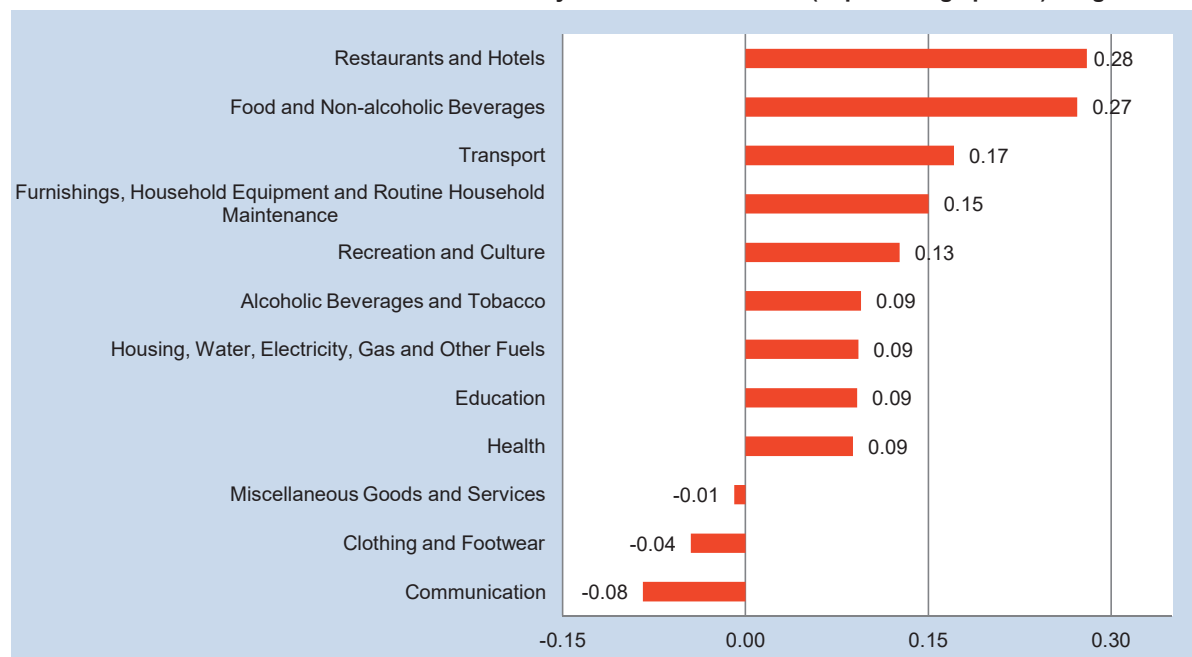
*see methodological note 5.3

Chart 2 shows 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. The impact takes into account both the weight and the annual rate of inflation by division.

The largest upward impacts on annual inflation were registered in the Restaurants and Hotels Index (0.28 percentage points)**, the Food and Non-alcoholic Beverages Index (0.27 percentage points) and the Transport Index (0.17 percentage points). These were mainly due to higher prices of restaurant services (including cafes and the like), non-alcoholic beverages and fuel respectively (Chart 2).

The Communication Index (0.08 percentage points), the Clothing and Footwear Index (0.04 percentage points) and the Miscellaneous Goods and Services Index (0.01 percentage points) registered the largest downward impacts on annual inflation, mainly reflecting lower prices for mobile phones, garments and jewellery articles respectively (Chart 2).

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



***Note that percentage points refer to the differences between two percentages.*

Table 2. Inflation rates by month and year

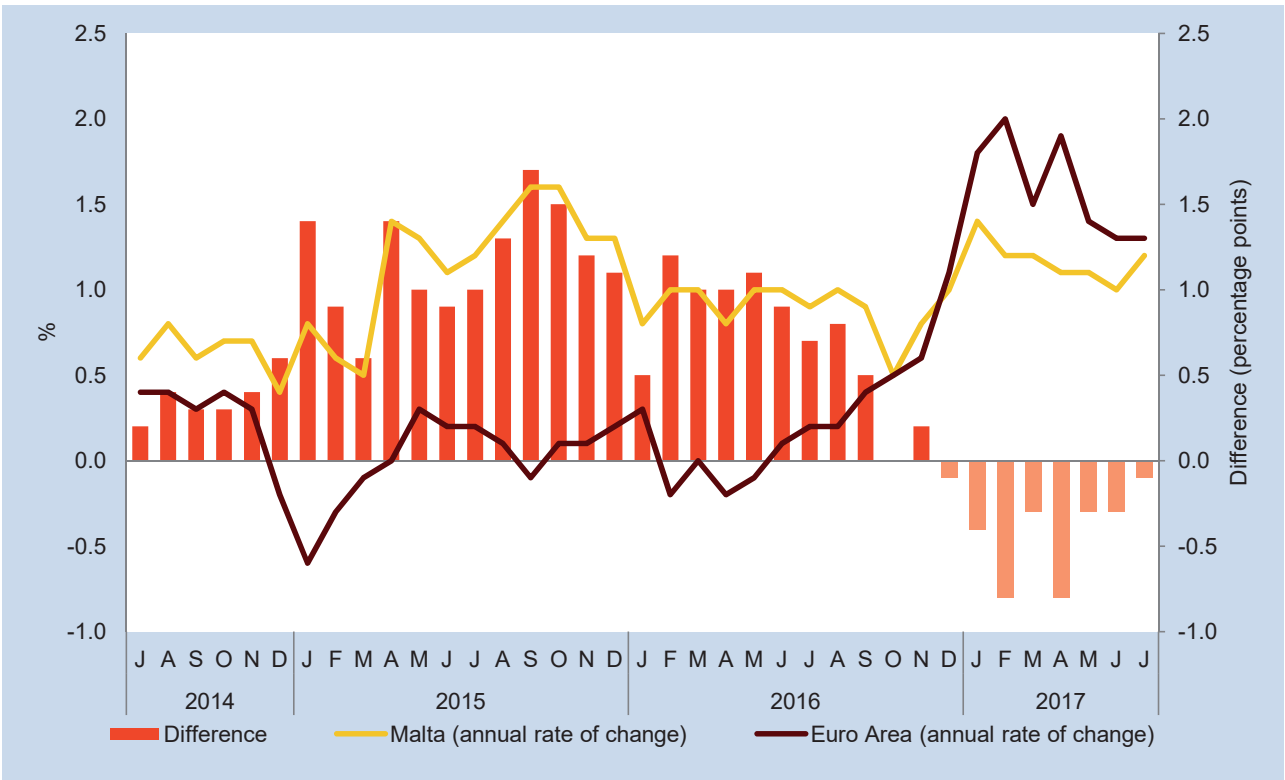
Month	2015		2016		2017	
	Annual rate (%)	12-month moving average rate (%)	Annual rate (%)	12-month moving average rate (%)	Annual rate (%)	12-month moving average rate (%)
Jan	0.8	0.8	0.8	1.2	1.4	1.0
Feb	0.6	0.7	1.0	1.2	1.2	1.0
Mar	0.5	0.6	1.0	1.3	1.2	1.0
Apr	1.4	0.7	0.8	1.2	1.1	1.0
May	1.3	0.8	1.0	1.2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

4. HICP (Malta and Euro area)

In July 2017, the annual rate of change as registered by the Maltese HICP All-Items index (1.2 per cent) was 0.1 percentage points lower than the annual rate of change as measured for the Euro area (1.3 per cent) (Chart 3).

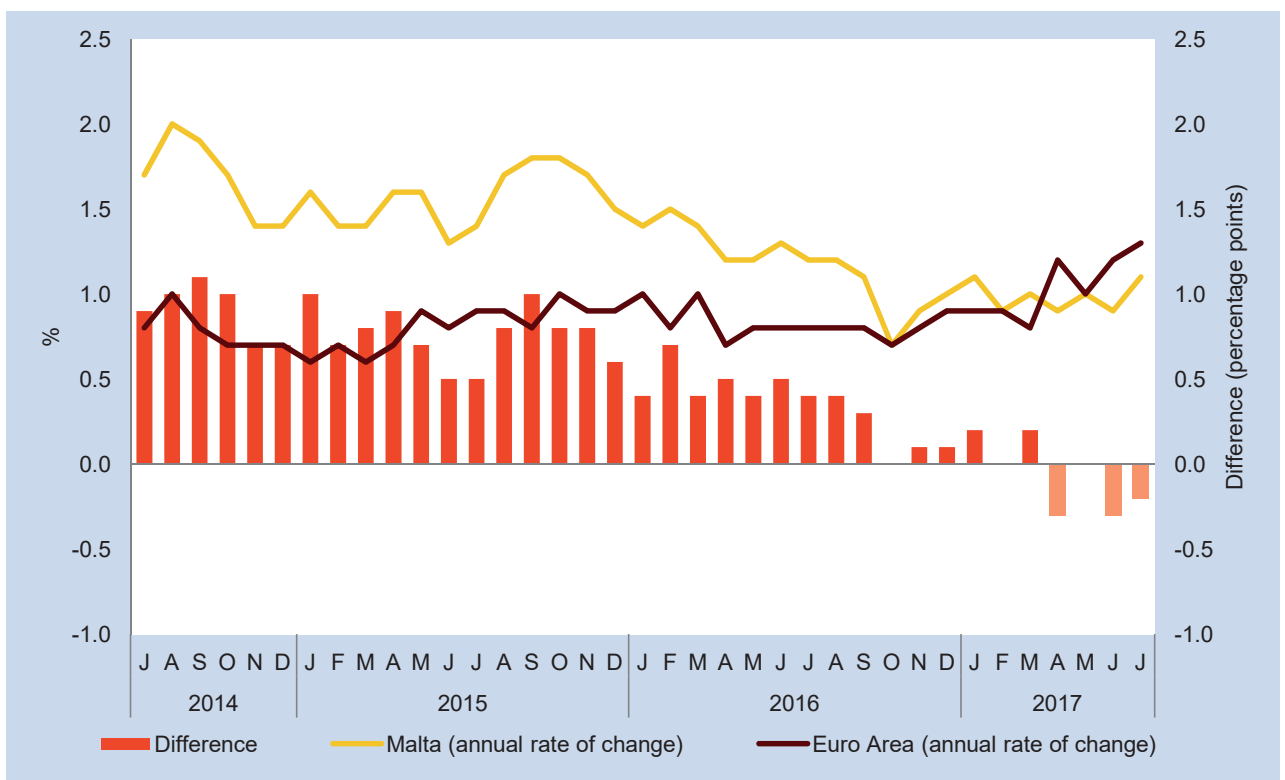
In July 2017, the annual rate of change registered by the Maltese HICP All-Items index excluding energy and unprocessed food (1.1 per cent) was 0.2 percentage points lower than the annual rate of change as measured for the Euro area (1.3 per cent) (Chart 4).

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, i.e. HICP and RPI, 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 behind HICP and RPI is similar, yet a few differences subsist:

- 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 each index 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 Maintenance of the House	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	Transport and Communication	22.10
8	Communication	37.58	Personal Care and Health	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 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 from the link below: (<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 behind HICP and RPI News Releases may be accessed from:

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

Metadata: (<http://nso.gov.mt/metadata/reports.aspx?id=9>)

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>)

Kindly indicate source when quoting from this release.

5.4 Publication policy

A calendar for future news releases may be accessed from the link below

(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>). Such 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). Note that the RPI series is published in accordance to the reference base December 2016.

6.2 Time series

Data from 1996 is accessible from the following link:

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