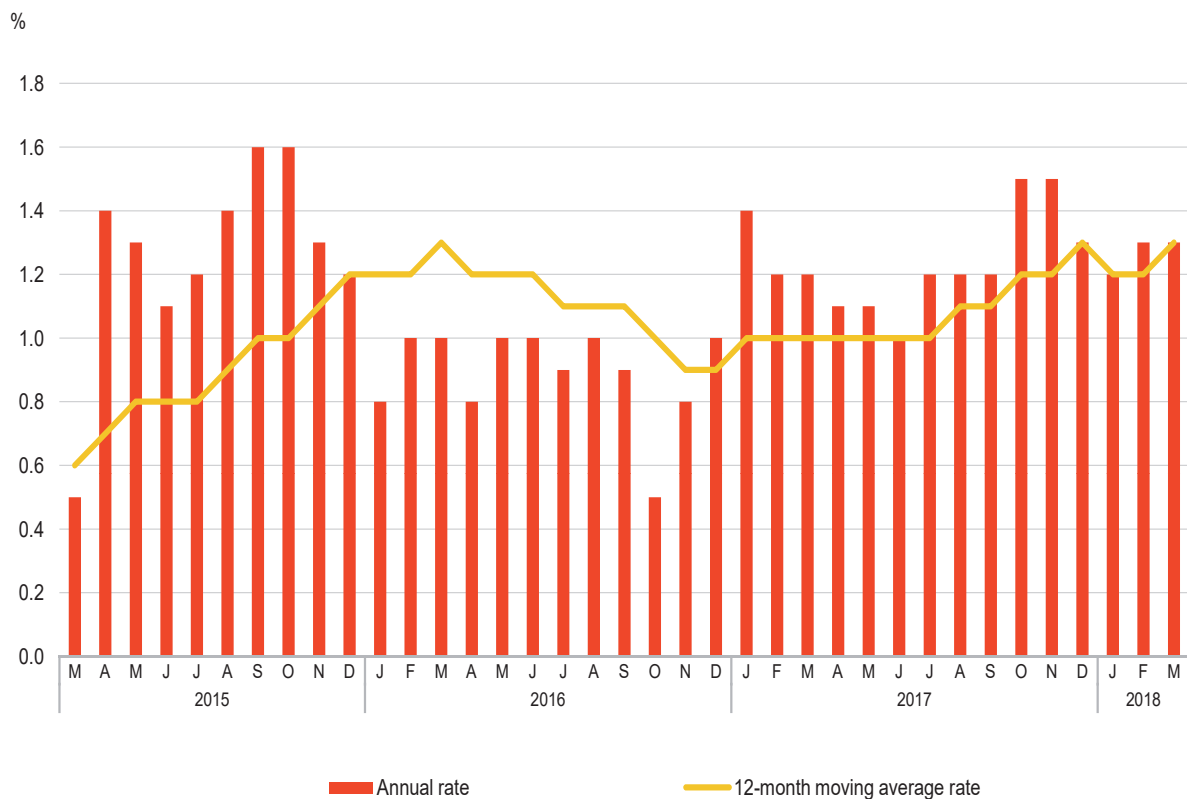


Harmonised Index of Consumer Prices (HICP): March 2018

1. Main points

- In March 2018, the annual rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) remained at a constant rate of 1.3 per cent.
- The twelve-month moving average rate for March increased to a rate of 1.3 per cent (Table 2).
- The largest upward impact on annual inflation was recorded in the Restaurants and Hotels Index (0.45 percentage points), mainly reflecting higher prices of restaurant services (including cafés and similar outlets). The largest downward impact was recorded in the Clothing and Footwear Index (0.05 percentage points), attributed to lower prices of garments (Chart 2).
- In February 2018, the annual rate of change for Malta as measured by the HICP All-Items Index was 0.2 percentage points higher to 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, which 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, which 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, which 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 March 2018 were registered in the following divisions: Furnishings, Household Equipment and Routine Household Maintenance (3.7 per cent) and Restaurants and Hotels (2.3 per cent). On the other hand, the lowest annual inflation rates were registered in: Clothing and Footwear (-2.5 per cent) and Education (-0.5 per cent).

Table 1. HICP indices

*Average 2015=100**

Division	Weight	Indices			Annual rate (%)	Monthly rate (%)
		Mar 2017	Feb 2018	Mar 2018	Mar 2018	Mar 2018
Food and Non-alcoholic beverages	162.01	104.77	105.71	105.76	0.9	0.0
Alcoholic Beverages and Tobacco	37.82	106.50	107.38	107.78	1.2	0.4
Clothing and Footwear	48.20	96.02	89.48	93.65	-2.5	4.7
Housing, Water, Electricity, Gas and Other Fuels	83.01	101.28	102.35	102.39	1.1	0.0
Furnishings, Household Equipment and Routine Household Maintenance	76.91	105.79	109.96	109.75	3.7	-0.2
Health	41.58	103.20	105.15	105.00	1.7	-0.1
Transport	133.72	98.84	98.11	99.09	0.3	1.0
Communication	34.24	96.69	96.81	96.34	-0.4	-0.5
Recreation and Culture	104.80	96.90	98.08	98.03	1.2	0.0
Education	21.68	110.06	109.51	109.51	-0.5	0.0
Restaurants and Hotels	176.21	92.57	91.52	94.71	2.3	3.5
Miscellaneous Goods and Services	79.83	101.00	102.82	102.66	1.6	-0.2
All Items	1,000.00	99.78	100.19	101.11	1.3	0.9

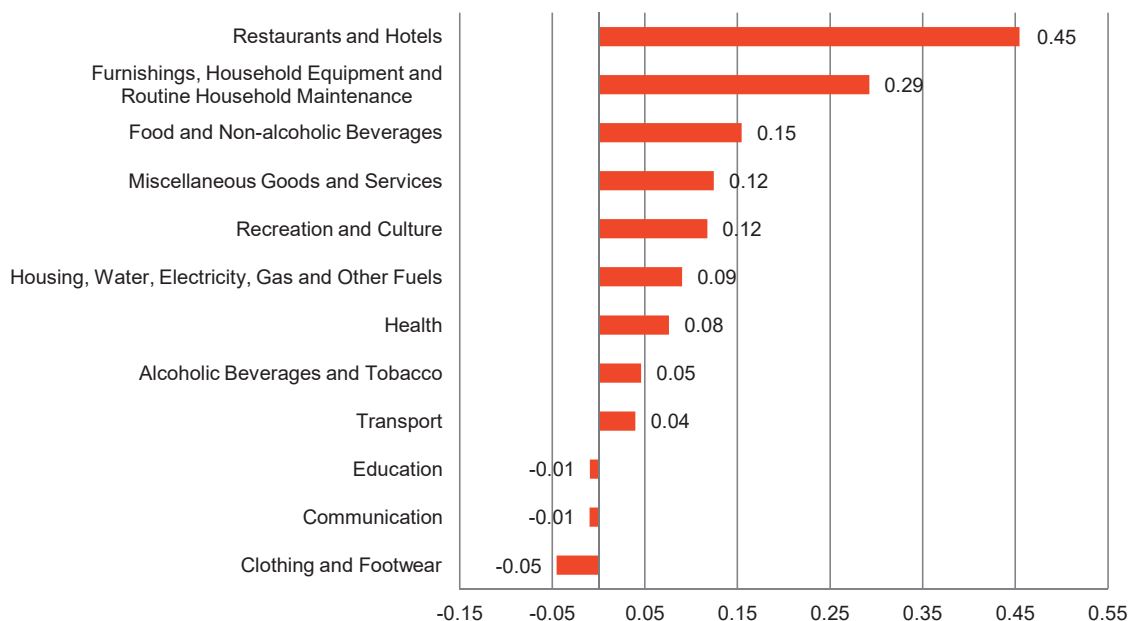
*see methodological note 5.3

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 as a result of the inclusion of an index. Such an impact takes into account both the weight and the annual rate of inflation by division.

In March 2018, the largest upward impacts were registered in the Restaurants and Hotels Index (0.45 percentage points), the Furnishings, Household Equipment and Routine Household Maintenance Index (0.29 percentage points) and the Food and Non-alcoholic Beverages Index (0.15 percentage points). These were mainly because of higher prices of restaurant services (including cafés and similar outlets), furniture and food products respectively (Chart 2).

The largest downward impacts were registered in the Clothing and Footwear Index (0.05 percentage points), the Communication Index (0.01 percentage points) and the Education Index (0.01 percentage points). These were mainly affected by lower prices of garments, mobile phones and educational fees respectively (Chart 2).

Chart 2. Contribution to the annual inflation rate by the 12 main divisions (in percentage points): March 2018



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

Table 2. Inflation rates by month and year

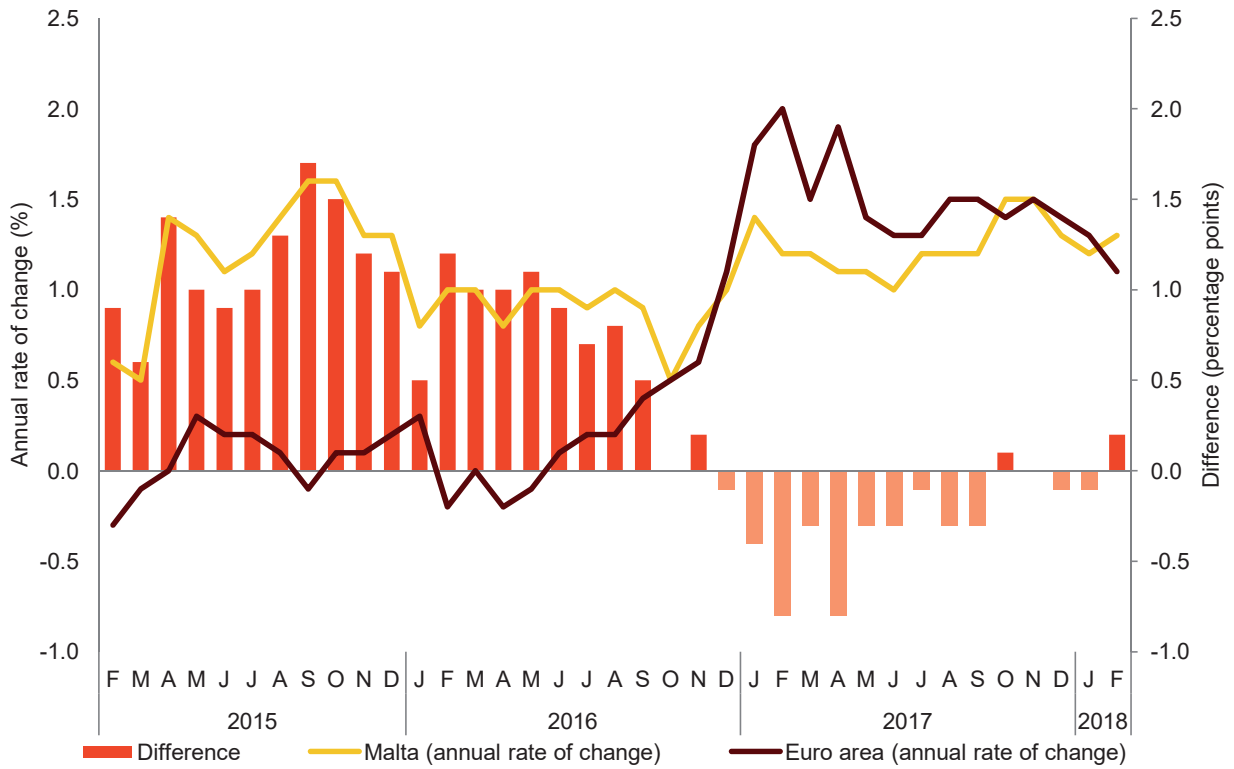
Month	2016		2017		2018	
	Annual rate (%)	12-month moving average rate (%)	Annual rate (%)	12-month moving average rate (%)	Annual rate (%)	12-month moving average rate (%)
Jan	0.8	1.2	1.4	1.0	1.2	1.2
Feb	1.0	1.2	1.2	1.0	1.3	1.2
Mar	1.0	1.3	1.2	1.0	1.3	1.3
Apr	0.8	1.2	1.1	1.0		
May	1.0	1.2	1.1	1.0		
Jun	1.0	1.2	1.0	1.0		
Jul	0.9	1.1	1.2	1.0		
Aug	1.0	1.1	1.2	1.1		
Sep	0.9	1.1	1.2	1.1		
Oct	0.5	1.0	1.5	1.2		
Nov	0.8	0.9	1.5	1.2		
Dec	1.0	0.9	1.3	1.3		

4. HICP (Malta and euro area)

In February 2018, the annual rate of change registered by the Maltese HICP All-Items Index (1.3 per cent) was 0.2 percentage points higher than its counterpart for the euro area (1.1 per cent) (Chart 3).

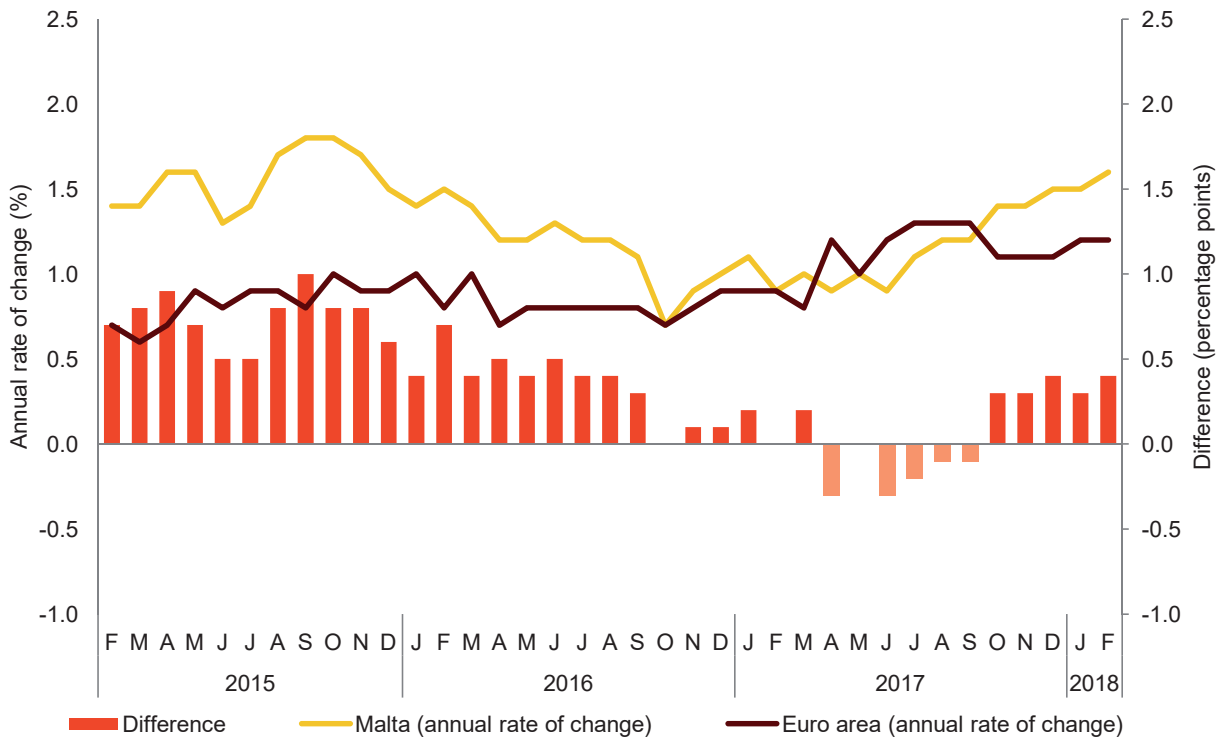
In the same month, the annual rate of change registered by the Maltese HICP All-items Index excluding energy and unprocessed food (1.6 per cent) was 0.4 percentage points higher than its counterpart for the euro area (1.2 per cent) (Chart 4).

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 Household Budgetary Survey. 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	162.01	Food	21.49
2	Alcoholic Beverages and Tobacco	37.82	Beverages and Tobacco	5.56
3	Clothing and Footwear	48.20	Clothing and Footwear	6.62
4	Housing, Water, Electricity, Gas and Other Fuels	83.01	Housing	7.90
5	Furniture, Household Equipment and Routine Household Maintenance	76.91	Water, Electricity, Gas and Fuels	3.31
6	Health	41.58	Household Equipment and House Maintenance Costs	6.97
7	Transport	133.72	Personal Care and Health	22.10
8	Communication	34.24	Transport and Communication	8.81
9	Recreation and Culture	104.80	Recreation and Culture (including Education)	9.90
10	Education	21.68	Other Goods and Services	7.34
11	Restaurants and Hotels	176.21		
12	Miscellaneous Goods and Services	79.83		
	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 basket of consumption items considered for the HICP is reviewed annually in line with National Accounts (NA) data collected over a 12-month period in order to obtain an estimate of the average household expenditure. New products are included in the basket of items when achieving a sales volume of over one part per thousand of total consumer expenditure covered by the HICP.

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>

References to this news release are to be cited appropriately.

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