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PRESS RELEASE

The new national consumer price index (Article for the June 2014 Economic Review)

The new national consumer price index (NCPI), on which the health index is based, came into effect in January 2014. It underwent a complete reform, as is usual every eight years, including total revision of its weighting scheme and a number of methodological changes. Although the NCPI methodology was at the same time brought closer to that of the harmonised index of consumer prices (HICP), the two indices are likely to continue to diverge in view of the remaining differences, notably in the weighting scheme, though to a lesser extent than in recent years.

The most significant change is probably the switch to use of a chained index instead of a fixed base. That decision, which also implies that the major reform in 2014 will be the last of its kind, will not only make it easier to carry out gradual methodological adjustments in the future, but also and above all to adjust the weighting scheme each year in order to constantly reflect new consumption patterns.

The improvements in measuring the movement in rents and prices for telecommunication services were also a priority in view of the weight of the former and the upheaval affecting the latter. Other adjustments are particularly welcome, such as those concerning the methodology of the household budget survey or the switch to the geometric mean for the aggregation of most prices at elementary level. This last change makes it possible to reflect the substitution effect in favour of less expensive products when purchasers turn towards cheaper outlets or brands.

The switch to the geometric mean and the new methodology for telecommunication services are therefore likely to have a downward effect on inflation according to the NCPI. That new methodology in fact takes better account of changes in market shares and accords greater weight to mobile communication, the price of which is falling, especially in relation to fixed telephony. Those impacts are likely to be partly offset by the upward pressure resulting from other changes, particularly the new methodology for rents. While the other changes of method can be considered neutral or insignificant in terms of their influence on inflation, that is not true of the weighting scheme update, which also affects the movement in the NCPI.

The chaining of the index and the accompanying establishment of a work programme drawn up each year by the Index Committee now offers the opportunity to make gradual, continuous improvements in response to the challenges which arise, such as the growth of internet trading, to reflect as closely as possible the impact of those consumption changes within the index.