consumer price index

key changes in 2009

Statistics South Africa

Preferred supplier of quality statistics

De Bruyn Park Building
170 Andries Street
Pretoria 0002

Private Bag X44
Pretoria 0001
South Africa

Email: info@statssa.gov.za
Website: www.statssa.gov.za

General information
Tel: +27 12 310 8911
+27 12 310 8600

CPI information
Tel: +27 12 310 2102
Fax: +27 12 321 7361

What is the Consumer Price Index?

The Consumer Price Index (CPI) measures monthly changes in prices for a range of consumer products. Changes in the CPI record the rate of inflation. The CPI can also be used as a cost-of-living index.

How is the CPI measured?

The prices of goods and services consumed by South Africans are used to calculate an inflation rate for the whole economy. But not all South Africans consume the same goods or services, nor do they consume them in the same proportions. The CPI cannot measure the way individual households experience inflation, or how they spend their money. As a result, the inflation rate is based on the estimated total expenditure of all South African households.

To measure inflation properly, Statistics South Africa (Stats SA) needs a measure (weight) for each good or service in total South African consumption. The Income and Expenditure Survey (IES) – a national survey in which households are asked detailed questions about what they spend their money on – is used to calculate these weights. The results of this survey provide a picture of the expenditure of an 'average' South African household which is then used to compile the weights for each good or service. Updating of these weights from time to time is necessary because of changes in economic conditions and spending patterns.

Once Stats SA has identified the products for which prices must be collected, it sends a national team of fieldworkers (price collectors) to each sampled retail store to record actual prices each month. A team based in Stats SA's head office collects prices for services.

CPI now in line with international standards

The changes to the CPI discussed in this booklet bring South Africa in line with international standards and best practices. Eminent international experts from Canada and Australia have assisted Stats SA in ensuring compliance with the norms established by the International Labour Organisation for the compilation of CPIs. This means that the CPI is now not only more relevant to the experiences of South African consumers, but is more comparable with the CPIs of other countries.

In view of the scale of changes made to the CPI, Stats SA has taken great care in ensuring that both methodological improvements and the managed transition accord with international practice. For example, the unprecedented introduction of a 12-month parallel survey is common practice in several OECD countries. This is of even greater relevance to South Africa, in view of the significant changes in weights and products and services. For a more detailed technical understanding of these issues refer to the Stats SA website (*www.statssa.gov.za*).

Why change the way CPI is measured?

No economy remains static, regardless of its performance or development trajectory. Products emerge and evolve, are withdrawn from circulation, or become redundant. New services replace older ones. Technologies advance, and expenditure patterns change in response to new socio-economic outcomes and aspirations, and marketing and advertising initiatives. Changes in the way the CPI is measured and compiled are necessary if economic trends are to be reflected accurately.

The following changes to the CPI will be introduced from January 2009:

- Both the basket of goods and services measured, and the weights given to each expenditure category in the basket, will be updated. This has been largely based on data gathered through the IES of 2005/06, and therefore reflects the consumption realities of most South Africans more accurately.
- Classification of goods and services will be updated to reflect international standards and practices.
- The CPI will be rebased.
- Changes will be introduced to the methods used to calculate some parts of the index, especially relating to housing costs.

New weights

During the period between the most recent IES of 2005/06 and the previous one conducted in 2000, South Africa experienced a period of significant economic growth. Simultaneously, government widened the net of grant recipients. Accordingly, real incomes of South Africans grew by approximately 30% during this time. This increase in income resulted in a shift in the proportion of expenditure on basic commodities such as food, and an increase in spending on durable goods such as motor vehicles, as well as on services.

Table 1 below shows how the weights for the current headline CPI for historical metropolitan areas, and the inflation target measure (CPIX for historical metropolitan and other urban areas) compare to the new headline measure (CPI for all urban areas).

Table 1: Comparison of weights for the current headline CPI and CPIX with new headline measure

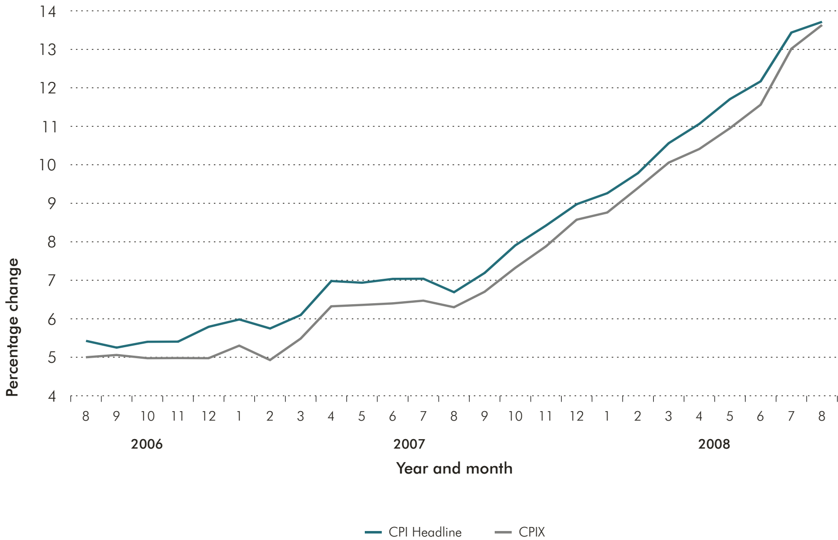
Category	Current headline	Current CPIX	New headline
Food and non-alcoholic beverages	22,09	26,92	15,68
Alcoholic beverages and tobacco	2,54	3,05	5,58
Clothing and footwear	3,25	4,06	4,11
Housing and utilities	25,36	15,55	22,56
Household contents, equipment and maintenance	7,39	8,37	5,86
Health	5,72	6,13	1,47
Transport	14,50	15,01	18,80
Communication	2,98	3,19	3,22
Recreation and culture	3,70	3,79	4,19
Education	3,48	3,77	2,19
Restaurants and hotels	0,00	0,00	2,78
Miscellaneous	8,99	10,16	13,56

The lower weight for food does not mean that South Africans are spending less money on food. Rather, it reflects higher income levels, with more money being spent on other goods. As a result, the proportion of expenditure on food relative to other goods and services is lower.

A new basket of products and services based on updated classification

From January 2009 the CPI will be presented according to the COICOP (Classification of Individual Consumption by Purpose) system, which is the international standard for classification of goods and services measured in a CPI. The main impact of the change in classification is the introduction of a new category for 'restaurants and hotels' (these were not previously included in the CPI). Additionally, 'insurance', which has historically been included under the category for which it provided cover (e.g. car insurance was classified under transport), now has its own subcategory within the larger category of 'miscellaneous'.

Annual percentage change in the CPI and CPIX



The 2005/06 IES provided the main source of information for deciding on the composition of the CPI basket. In order to be included in the basket, a product had to meet a threshold for the total money spent on it, together with the number of households which indicated that they had purchased it. In this way, Stats SA has ensured that the basket does not include products which are expensive and bought by only a few households (e.g. boats or musical instruments), or which are commonly purchased but are so cheap that their weight would be insignificant (e.g. matches).

Important new inclusions in the CPI basket are minibus taxi fares, restaurant and take away meals, funeral costs, hotel rooms, sports events tickets, DVD players and Internet service provider costs. Some of the products which have fallen out of the basket are caravans and boats, musical instruments, VHS recorders and VHS cassettes.

Each province will now have its own basket, which means that the CPI is more responsive to buying patterns at a local level. A product appears in the national list if it met the criteria for at least one province. Table 2 shows the number of products in the provincial and national baskets. The national total of 416 is significantly reduced from the previous number of 1 200 products. However, the new total is more in line with international norms. Stats SA aims to maintain the number of actual prices collected at around 100 000 per month. This will result in more prices being collected per product, which will enhance the robustness of the CPI.

Table 2: Number of products in provincial and national baskets

Publication level	Products
Western Cape	392
Eastern Cape	365
Northern Cape	356
Free State	374
KwaZulu-Natal	370
North West	364
Gauteng	370
Mpumalanga	363
Limpopo	356
National	**416**

Rebasing

Rebasing of the CPI refers to the process of resetting all of the actual indices to a common starting point, i.e. 100. The current base period is the year 2000, and the new base period will be set to 2008. The base period is represented as 2008 = 100, which means that the average index level for 2008 is equal to 100.

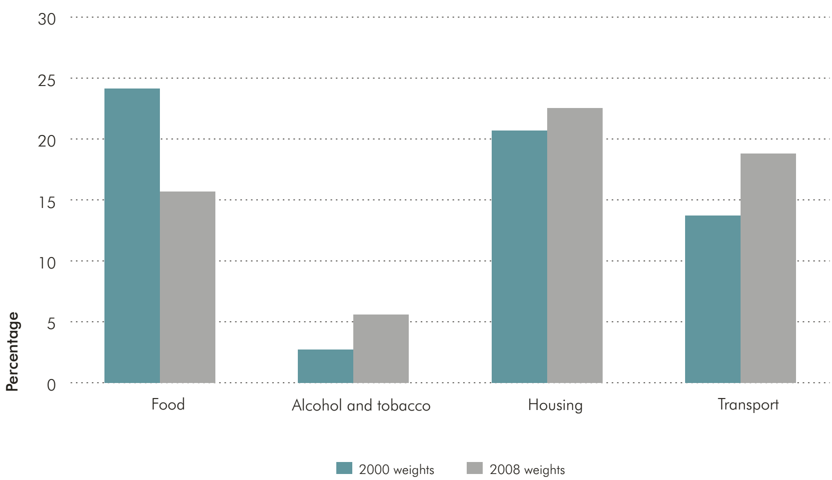
The base period can also be viewed as the price reference period. In other words, the average price level for the base period is equivalent to an index level of 100. For this reason, Stats SA is surveying the prices of all products in the new basket during 2008 in order to be able to calculate inflation rates in 2009. In this way, 2008 inflation rates can be meaningfully compared with 2009 developments despite changes introduced at the beginning of 2009.

International practice is to rebase the CPI periodically to avoid distortions that build up over time. However, in situations where there is a high dispersion of inflation rates between different products, rebasing reduces the accumulated impact of higher-than-average inflation products and increases the impact of lower inflation items. The net result can be a lowering of the level of inflation although this largely depends on the actual inflation rates at the time.

Owners' equivalent rent

The most significant methodological change to the CPI involves the introduction of an owners' equivalent rent (OER) as a measure for the costs of owner-occupied housing. Home owners' costs are currently measured through interest rates on mortgage bonds. This element is excluded from the CPIX to avoid circularity, as an increase in interest rates may increase inflation, and thus generate a further increase in interest rates.

Comparison of weights for major categories



However, interest rates are more a measure of the cost of debt than of housing, and are therefore an unsatisfactory measure of the costs of owner-occupied housing. It is for this reason that the International Labour Organisation (ILO), which sets down the norms of CPI measurement, has excluded the use of interest rates as a measure of home owners' costs.

The cost of housing for owner occupiers has a dual nature, in that it reflects both investment and consumption. A homeowner incurs two types of cost, neither of which is directly linked to any payment:

- The capital cost, which creates a fully-owned asset at the end of the mortgage period. This is not a component of the current cost of living (and therefore excluded from the CPI); and
- The cost of consuming a housing service. This is the opportunity cost caused by an owner who chooses to live in his home rather than rent it out. It is this cost that is referred to as owners' equivalent rent.

Owners' equivalent rent will be measured by tracking actual rentals paid for dwellings. Stats SA has been conducting a survey of rentals since 2005, which will form the data source for measuring OER.

Other methodological changes

A range of other methodological changes will take hold in the CPI from January 2009. Most of these are not expected to have a significant impact on the overall CPI numbers. What they do aim to do, however, is ensure improved accuracy and relevance for each price which is incorporated into the CPI calculation. Most methodological changes involve the conducting of price surveys with better samples, and standardising calculation methods.

Examples of these types of methodological changes include:

- Conducting a survey of doctors and dentists instead of using the Department of Health recommended price list (NHRPL).
- Tracking the average price of the top 10 or top 20 bestseller list for books, DVDs and CDs instead of trying to track the price of a particular set of titles over a long period of time.
- Pricing university fees by course (e.g. Accounting 1) rather than by degree (e.g. 1st year BCom).

A new reporting format

The changes described above will influence changes to the format of the monthly CPI publication. It will be significantly streamlined, with most information provided for the headline inflation measure. Detailed breakdowns for specific areas will be available through the Stats SA website, or on request.

New inflation target measure

As a result of the changes to be introduced to the CPI, the inflation target measure and the headline measure will be replaced by a CPI for all urban areas. This means that the two most commonly cited measures of inflation (headline inflation and the CPIX) will be brought into alignment. This should make the use of inflation data simpler for experts and laypeople alike.