



**stats sa**

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## **UPDATE TO THE WEIGHTS OF THE CONSUMER PRICE INDEX**

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### **Introduction**

According to international standards, the weights and basket of the consumer price index (CPI) should be updated at least every 5 years. This is to ensure that changes in consumer expenditure are reflected in the weighted aggregates of the measure of inflation.

The most recent weights and basket updates for the South African CPI were introduced in January 2017. Stats SA will update the weights with effect from the January 2022 release to be published in February 2022.

### **Source data for updating the weights**

The revised CPI manual (IMF 2020, p108) affirms that a household expenditure survey is “*the primary data source for deriving expenditure shares for the goods and services covered by the CPI.*” This is because the survey is designed to be representative of the entire population with the ability to provide geographic and population group breakdowns. Importantly, the survey captures expenditure on all products in a particular period, providing for calculation of detailed expenditure proportions.

In South Africa, this survey has been run as either an Income and expenditure or Living conditions survey (LCS). The LCS of 2014/15 formed the basis of the 2017 weights and basket update. Regrettably, no funding has been provided for an expenditure survey in the six years since then. The update in 2022 will therefore be based on a set of alternative data sources.

Changes in the detail of the household final consumption expenditure (HFCE) component of the national accounts between 2017 and 2019 will be the main source used to update the CPI weights. The changes will be derived from the newly benchmarked national accounts estimates to be published in August 2021.

As a general framework, the System of National Accounts 2008 incorporates the concepts, classification and methods of the CPI. In a number of countries, national

accounts estimates are used for updating CPI weights in conjunction with other expenditure data. The CPI manual emphasises that national accounts should be seen as *“an alternative source for deriving CPI expenditure weights”* (IMF 2020, p110) and should not replace an expenditure survey. However, *“national accounts data may be used when the household expenditure survey is conducted too infrequently to ensure the reliability of the CPI”* (p33).

There is not a perfect fit between the detail available in the national accounts and that required for CPI weights. While a common classification is used, the CPI weights are determined with finer granularity than the national accounts. The national accounts report for the whole territory of South Africa, but the headline CPI is for urban areas. The CPI provides a set of ‘analytical indices’ including for pensioners and expenditure deciles, but there is no reference to these in the national accounts.

To plug these gaps as far as possible, a range of additional data sources will be employed including Stats SA survey data (e.g. Retail large sample survey), administrative records and company sales information. Where fresh data are not available at detailed product or geographic level, the existing proportions will be retained, with adjustments being made at higher-level aggregates.

The CPI basket, which is the most detailed list of goods and services to which a weight can be attached, will be updated where available data allows.

### **Weights reference period**

COVID-19 has had a devastating economic impact, especially in 2020 but continuing into 2021. While it is not clear how long this disruption will continue, it is likely that it will diminish with time.

In the past, Stats SA has used growth factors as well as price updating to adjust the weights to refer to the same period as the index reference month - that being the December before implementation. As the weights remain fixed for a number of years into the future, the CPI manual (p115) guides that the weights should reflect a ‘normal’ consumption period and to adopt weights that are not likely to change much in the future. In addition, price updating is no longer considered to be good practice, as it may exaggerate the upward substitution bias inherent in a Laspeyres-type index as used in the South African CPI.

For these reasons, the updated weights reference period will be 2019.

**Index reference period**

Rebasing the indices is important to limit the impact of historical inflation on current readings. The current base period is December 2016 = 100. All indices will be rebased to December 2021 = 100. Rebasing simply changes the level of the actual indices, and does not affect the rates of change previously published.

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