



EUROPEAN COMMISSION
EUROSTAT

Directorate C: National Accounts, Prices and Key Indicators

Unit C-4: Price statistics. Purchasing Power Parities. Housing statistics

HICP Compliance Monitoring Report

Ireland

September 2017

1. Introduction

In May 2017 Eurostat reviewed the compilation of the harmonised index of consumer prices (HICP) for Ireland. The review was done against the existing legal framework, established HICP methodological recommendations and other guidelines and good practices in the field of consumer price indices.

The current report is based on:

- A document with the inventory of the sources and methods used for the Irish HICP. The document was provided to Eurostat in February 2017.
- The meta data of the Irish HICP in Eurostat's dissemination database,
- The discussion at the compliance monitoring visit that took place on 24 May 2017 at the Central Statistical Office of Ireland (CSO) in Cork.
- The report on the previous compliance monitoring exercise.

For all main methodological topics related to the HICP this report briefly summarises the Irish practice followed by Eurostat's recommendations for improvement (if applicable) and a brief appraisal of compliance. The report concludes with Eurostat's overall assessment of compliance of the Irish HICP.

The efforts of the CSO to strengthen the methodological work for the HICP and the national Consumer Price Index with a dedicated methodologist for prices are welcomed.

2. Coverage and classification

All monetary consumption expenditure by private households on the economic territory of Ireland is covered, including expenditure incurred by individuals living in institutional households and foreign tourists within Ireland.

All categories of household final monetary consumption expenditure, broken down by the European Classification of Individual Consumption by Purpose (ECOICOP), which account for more than one part in a thousand of the total, are included in the HICP.

The 5-digit level of ECOICOP is implemented with the publication of the December 2016 HICP in early 2017.

Compliance

The coverage of household final monetary consumption expenditure and the classification used for the Irish HICP are in line with the legal requirements.

3. Sampling and representativity

The definition of the economic territory is identical to the definition of economic territory given by the European System of Accounts (ESA). No parts of the country are excluded.

The cities Dublin, Cork, Limerick, Waterford and Galway are automatically included in the sample and from the remaining strata a random sample of 79 cities and towns is drawn. Regional weights are used in the compilation of the HICP.

The number of retail outlets in the sample is more than 3000, of which approximately 2800 are surveyed directly by price collectors. Outlets in the sample range from large supermarkets to small local outlets. Market stalls, farmers' markets and mail order are not part of the outlet sample. Internet purchases are included in the HICP.

The concept of consumption segments is used when a product is no longer available and a replacement needs to be found. A replacement product is chosen that is comparable and fulfils the same consumption purpose. This is an implicit use of the concept of consumption segments. An explicit use of consumption segments would give a further stratification of ECOICOP below the level of sub-classes which could help to guarantee an appropriate coverage of the sub-class.

Some products for the maintenance of dwellings like building materials or floor tiles seem more appropriate for major repairs that fall under the responsibility of landlords and home owners. Expenditure on major repairs is excluded from the HICP and treated as intermediate consumption in accordance with ESA 3.96 (2).

Recommendations

The CSO should develop the explicit use of consumption segments especially for technologically fast moving markets as an aid to structure product selection and ensure the continued representativity of the HICP.

The decision to omit market stalls, farmers' markets and mail order should be checked regularly and if needed, such outlet types should be included to ensure the representativity of the outlet sample.

Compliance

The sampling and representativity are in line with the legal requirements once the list of products sampled for the maintenance and repair of dwellings has been reviewed and amended if necessary.

4. Weights

The main source for weights for the 4-digit level of ECOICOP is the National Accounts. Below the 4-digit level Household Budget Survey (HBS) data is used.

The weights at the 4-digit level of ECOICOP are reviewed and updated annually and weights at the 5-digit level are recalculated each year on a pro rata basis using the structure of the most recent HBS.

Compliance

The compilation of weights in the Irish HICP is in line with the legal requirements.

5. Price collection

Price collection is done by price collectors directly in retail outlets or centrally by staff at the CSO.

The direct price collection is done by 83 price collectors using electronic handheld devices. They collect approximately 50 000 price quotations each month.

Central price collection is done for products such as utility charges, flights and package holidays by post, telephone, e-mail and internet. Approximately 3 000 prices are collected in this way every month.

The CSO has implemented a project on optimising the allocation of price quotes to products based on the weight of the item and the variability of price movement. They have also started a project on the use of scanner data for the HICP.

The following issues were discussed in detail:

Missing Prices

For clothing items, the current practice for processing prices allows a price to be carried forward or estimated for three months. For all other items, prices are not estimated but simply replaced with another product within the constraint of the item description. According to Regulation (EC) No 1749/1996 Article 6, prices may not be estimated for more than two months. The CSO indicated that whilst practice allows prices to be estimated for three months in the case of clothing items, this rarely happens.

Airline tickets

The period of time between pricing an airline ticket and the moment of departure should be reviewed against consumer behaviour. The CSO currently collects prices twice each month, in the first round of pricing flights are booked in advance, ranging from 6 weeks to a month before departure. In the second round of pricing flights are booked in advance, ranging from a month to two weeks before departure. Commonly a distinction is made between long-haul and short-haul flights with a longer period of time for long-haul flights which reflects consumer behaviour to plan more distant holiday more in advance.

Frequency of price collection

For most products prices are collected monthly. However, for several products prices are collected annually, biannually or quarterly. In some cases prices are regulated and a lower frequency of price collection is justified.

For other items the justification is not clear. For example, for garden furniture and water sports equipment prices are collected quarterly whereas for furniture and other sports equipment prices are collected monthly. Other examples of quarterly price collection are motor car tyres, E-book readers, CDs and DVDs and services related to the maintenance of houses.

The choice to reduce the frequency of price collection is explained with reference to low weights, infrequent price changes, a lack of resources or a need to reduce the burden on respondents. To ensure the continued cooperation of small service providers such as plumbers, it seems justified to lower the frequency of price collection. In the example of this type of service, prices are often relatively stable in any case.

Recommendations

Eurostat recommends adapting practice for processing of clothing prices so that prices are not estimated for more than two months.

The price collection for flights needs to be reviewed and updated to ensure the representativity of the sub-index.

Compliance

The price collection is not fully in line with the legal requirements set out in Regulation (EC) No 701/2006 as, without sufficient justification, prices for some products are not collected monthly.

6. Discounts

The legal requirements for price reductions are applied in the Irish HICP. Discounts available to all consumers with no special conditions attached are taken into account.

Compliance

The treatment of discounts is in line with the legal requirements.

7. Quality adjustment

Quality adjustments are made by price collectors and checked by the central office staff. Price collectors have a choice, when making a replacement, between direct comparison (no quality change) and bridged overlap, i.e. implicit quality adjustment. Bridged overlap is applied to approximately 7% of 48 000 collected prices.

The bridged overlap approach might not be the most appropriate approach to quality adjustment of products if it is applied by default.

The CSO is running a project in 2017 aiming at improving the quality adjustment methods and bringing these more in line with HICP recommendations. The project focusses on clothing and footwear, cars and electronic goods. The treatment of second hand cars is now consistent with HICP recommendations and takes depreciation into account.

Recommendation

The default application of bridged overlap should be reviewed. The implementation of explicit quality adjustment methods should be examined.

8. Treatment of seasonal products

According to the CSO, seasonal products are not important in Ireland. The basis for this judgement are the broad product categories used in the analysis of the HBS data which also form the starting point for the product descriptions used in the HICP. It seems that due to the use of broad product descriptions, such as 'apples' and 'stone fruit', for the HICP price collection, possible seasonal patterns are concealed. Had narrower descriptions, like 'Golden Delicious

apples' or 'cherries' been used, seasonal pattern, if they exist, would become visible. The position taken by the CSO that seasonal products are not important is therefore related to the level of detail contained in the analysis files from the HBS. It is possible to analyse the HBS data at a more detailed level.

In practice, price collectors choose specific representative products within the relatively broad descriptions. Once a specific product is not representative or available anymore, the price collector replaces it by another product while adhering to the broad description. The replacement is either done by direct comparison or bridged overlap. No out-of-season estimation takes place.

Compliance

Eurostat's view is that the statement that seasonal products are not important in Irish household consumption is not well justified as it is based on product definitions that are very broad. Seasonality in products may appear only at a more detailed product level.

The method used by the CSO is not among the options given in Regulation (EC) No 330/2009 and in particular for the estimation of prices that are out-of-season (Article 4). Nevertheless, the current Irish method may deliver results that are sufficiently comparable (Article 5) to the methods that are allowed.

In order to enable proper assessment of the compliance with Regulation (EC) No 330/2009 of the Irish treatment of the seasonal products, the CSO is asked to present test calculations of indices for both food and non-food products that are based on narrower product definitions of potential seasonal products, based on an analysis of Irish HBS data at a more detailed level. The test calculations should be done according to a method given in Regulation (EC) No 330/2009. If the results of the actual method differ from the test results by less than what is acceptable according to the comparability requirements of Regulation (EC) No 330/2009, then the current method would be considered comparable.

9. Package holidays

For package holidays, monthly baskets are used, in other words bookings in different months are regarded as fundamentally different products, each with its own weight and price. As a consequence, only year-on-year comparisons of the index make sense, while other comparisons are distorted.

Compliance

The applied approach is not compliant with the legal requirements of Regulation (EC) No 1749/96 Articles 5 and 6 since prices for different products are collected each month without quality adjustment. The CSO intends to initiate a project to implement the requirements of Regulation (EC) No 1749/96 Article 5 and 6.

10. Index calculation

The Irish HICP is a Laspeyres-type index. Jevons price index (ratio of geometric means) is used for the elementary aggregate formula. The price reference period in year t is the December of year t-1. The resulting indices are chained, using the December of year t-1 as the link month.

Compliance

The index calculation is in line with the legal requirements.

11. Administered prices and constant tax rates

The list of administered prices (AP) for the compilation of the HICP-AP is transmitted each year to Eurostat. In recent years there were frequent changes in price administration in Ireland. The treatment of HICP-AP is in line with the good practice established for the HICP.

The CSO provides the HICP at constant tax rates (HICP-CT) to Eurostat following the methodology defined by Eurostat. The treatment of HICP-CT is in line with requirements for the HICP.

12. Follow-up from previous compliance report

The previous compliance monitoring visit took place in March 2009 and most recommendations from that report have been followed-up. Notably, the use of National Accounts for higher level HICP weights has been implemented, the HICP for telecommunications and cars have been improved and a more frequent price collection for fuels has been implemented.

The treatment of seasonal products, on the other hand, has not yet been dealt with in a satisfactory manner (see above Section 7). Improving quality adjustment methods and increasing the frequency of price collection; are still being worked on. The CSO intends to initiate a project to improve the treatment of package holidays.

13. Overall assessment

Eurostat considers that the methods used for producing the Irish HICP are of a good standard. The Irish HICP will be fully compliant with the legal requirements once the compliance issues mentioned in paragraphs 3, 5, 8 and 9 have been resolved. If the CSO follows up on the recommendations given in 3, 5 and 7 the comparability of the Irish HICP would improve further. Notwithstanding these issues, Eurostat assesses the Irish HICP to be sufficiently comparable to that of the other EU Member States.