
Consumer price index for all urban areas

In February 2009 Statistics South Africa (Stats SA) introduced a new and improved consumer price index (CPI) with the publication of the CPI for January 2009. The *CPI for all urban areas* became the new headline measure of change in the prices of consumer goods and services. Four fundamental changes encapsulate the new consumer price inflation measure, namely: (1) the replacement of the International Trade Classification with the Classification of Individual Consumption by Purpose (COICOP); (2) the reweighting of the CPI with new expenditure weights, primarily based on the Income and Expenditure Survey (IES) of 2005/06; (3) the rebasing of the CPI to the 2008 calendar year; and (4) the introduction of owners' equivalent rent to estimate housing-related costs.

As from January 2009 the items in the CPI basket are grouped together and presented according to the COICOP classification, which is the international norm for the classification of goods and services measured in the CPI. A material change is the introduction of a new category for *restaurants and hotels*. Also, the *insurance* for property, vehicles and health, which previously formed part of these respective categories, has been reclassified under the category for *miscellaneous* items.

The main objective of the IES is to collect information on household spending patterns for use in the calculation of CPI weights to reflect changes in expenditure patterns and preferences over time. While a previous IES was conducted in 2000, its successor was conducted between September 2005 and August 2006, based on the diary method and covering some 25 000 households. Stats SA employed both the plutocratic and democratic approaches² in the selection of the contents of the new basket. This process allowed for new inclusions in the CPI basket, for example, minibus taxi fares, restaurant and take-away meals, funeral costs, hotel rooms, sports and events tickets, digital video disc (DVD) players, and Internet service provider costs. Despite these additional goods and services, the new national CPI basket was reduced to 403 items from 1 200 items previously, but with a criterion that if a product appears in at least one province it must be included in the national basket. In addition, each of the nine provinces has its own basket, which allows for

² With the plutocratic approach the items included are those that attract the largest proportion of total expenditure; with the democratic approach the items included are those consumed by the largest number of households.

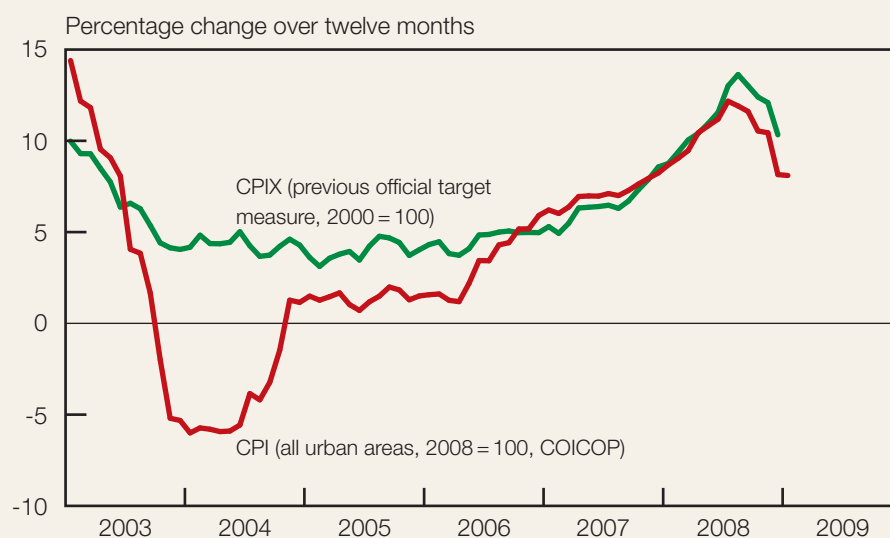
the CPI to be more representative of the buying patterns in the different areas of the country. Stats SA aims to maintain the number of actual prices collected at around 100 000 per month.

Comparison of weights for the new and old CPI and CPIX measures based on the COICOP approach

	All urban areas		
	New CPI (new inflation target measure)	Old CPI	Old CPIX (previous inflation target measure)
Food and non-alcoholic beverages	15,68	22,09	26,92
Alcoholic beverages and tobacco	5,58	2,54	3,05
Clothing and footwear	4,11	3,25	4,06
Housing and utilities	22,56	25,36	15,55
Household contents, equipment and maintenance	5,86	7,39	8,37
Health	1,47	5,72	6,13
Transport.....	18,80	14,50	15,01
Communication	3,22	2,98	3,19
Recreation and culture.....	4,19	3,70	3,79
Education.....	2,19	3,48	3,77
Restaurants and hotels.....	2,78	0,00	0,00
Miscellaneous.....	13,56	8,99	10,16
Goods.....	54,20	59,42	66,24
Services.....	45,80	40,58	33,76
Total.....	100,00	100,00	100,00

A range of methodological changes were also instituted in the new CPI, with the most significant change being the treatment of the costs of owner-occupied housing by means of the so-called owners' equivalent rent (OER) approach. In the former headline CPI, homeowners' costs were measured using the interest rates on mortgage advances. However, this was excluded from the officially targeted CPIX measure to avoid perverse circularity effects on inflation when interest

Targeted measure of inflation



rates are changed. Ideally, CPI should measure the price or cost of the services received by the homeowner occupying his or her own home, and exclude the cost associated with investment in a home as a durable asset. OER refers to the opportunity cost incurred by an owner of a house who chooses to live in his or her house rather than rent it out.

Other methodological changes employed in this exercise were aimed at improving the accuracy and relevance of each price data point that is included in the CPI basket. These included the conducting of price surveys with better sampling procedures and standardised calculation methods. Notable changes include

1. conducting a survey among doctors and dentists of prices charged instead of using the Department of Health's recommended price list (NHRPL);
2. tracking the average price of the top 10 or top 20 bestsellers' list for books, DVDs and compact discs (CDs) instead of tracking the price of a particular set of titles over a long period of time; and
3. the pricing of university fees by course (e.g. Accounting 1) rather than by degree (e.g. first-year Bachelor of Commerce).

Facilitated by the exclusion of home mortgage interest cost from the calculation of the CPI, the new headline³ CPI for all urban areas now also serves as the new inflation target measure for monetary policy purposes.

References

Statistics South Africa. 2009. *Methods and sources manual*, February. Pretoria: Statistics South Africa.

Statistics South Africa. 2008. "Rent in the South African CPI: concepts and trends", December. Pretoria: Statistics South Africa.

Statistics South Africa. 2009. "Shopping for two: the CPI new basket parallel survey; results and comparisons with published CPI data", February. Pretoria: Statistics South Africa.

³ Previously the headline CPI referred to the CPI (which included mortgage interest cost) for metropolitan areas only. The targeted CPIX measure (which excluded mortgage interest cost) was for metropolitan as well as other urban areas; in other words, it already included all urban areas.