

Consumer Price Index PRIMER



CONSUMER PRICE INDEX (CPI)

What is the Consumer Price Index (CPI)?

The CPI is an indicator of the change in the average retail prices of a fixed basket of goods and services commonly purchased by households relative to a base year.

What are the uses of CPI?

The CPI is most widely used in the calculation of the inflation rate and purchasing power of the peso. It is a major statistical series used for economic analysis and as a monitoring indicator of government economic policy.

The CPI is also used to adjust other economic series for price changes. For example, CPI components are used as deflators for most personal consumption expenditures (PCE) in the calculation of the gross national product (GNP). Another major importance of the CPI is its use as basis to adjust wages in labor management contracts as well as pensions and retirement benefits. Increases in wages through collective bargaining agreements use the CPI as one of their bases.

How is the CPI computed?

The computation of the CPI involves consideration of the following important points:

- a. **Base Period.** Since the CPI measures the average changes in the retail prices of a fixed basket of goods, it is necessary to compare the movement in prices in the current year to movements in previous years back to a reference date at which the index is taken as equal to 100. This reference date or base period is simply a convenient benchmark to which a continuous series of index can be related and has no numerical significance.

The base period is a year. A month is deemed unwise to use as a base period because it often reflects accidental or seasonal influences.

The present series uses 2006 as the base year. The year 2006 was chosen as the base year because it is the year when the Family Income and Expenditure Survey (FIES) was conducted. The FIES is the basis of the CPI weights. It is also in accordance with the National Statistical Coordination Board Resolution Number 2, Series of 2009, which approves the synchronized rebasing of the price indices to base year 2006.

- b. **Market Basket.** Since it is virtually impossible to have periodic measures on the changes in the prices of all the thousands of varieties of goods purchased for consumption and services availed of by households in the country, a sample of these items, known as the 'CPI market basket', was selected to represent the composite price behavior of all goods and services purchased by consumers.

The market basket used in the construction of the 2006-based CPI for all income households combines the baskets of the upper 70% and bottom 30% income group households drawn from the results of the 2007-2008 Commodity and Outlet Survey (COS). The COS is a nationwide survey of households undertaken by the National Statistics Office (NSO). This is conducted for the purpose of gathering data on commodities and services that a family purchased/consumed/availed of most of the times and the type of outlets where these commodities/services were purchased/availed of within the country.

The 2006 CPI series is also the first in the CPI series that used the United Nations Classification of the Individual Consumption According to Purpose (COICOP) in determining the commodity groupings of the items and services included in the market basket. There are 80 provincial market baskets including the National Capital Region (NCR) and the cities of Isabela and Cotabato.

- c. **Weighting System.** A desirable system should consider the relevance of the components of the index. For the CPI, the weighting pattern uses the expenditures on various consumer items purchased by households as a proportion to total expenditure.

The weights of the eleven COICOP divisions used in the computation of the CPI are shown in the following table.

Weights by Commodity Group for CPI (2006=100)

Division	PHILIPPINES	NCR	AREAS OUTSIDE NCR
00. ALL ITEMS	100.00	23.79	76.21
01 FOOD AND NON-ALCOHOLIC BEVERAGES	38.98	6.78	32.20
02 ALCOHOLIC BEVERAGES AND TOBACCO	1.99	0.33	1.66
03 CLOTHING AND FOOTWEAR	2.96	0.74	2.22
04 HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	22.46	6.97	15.49
05 FURNISHING, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE	3.22	0.84	2.38
06 HEALTH	2.99	0.64	2.35
07 TRANSPORT	7.81	1.86	5.95
08 COMMUNICATION	2.26	0.71	1.55
09 RECREATION AND CULTURE	1.93	0.50	1.43
10 EDUCATION	3.37	0.76	2.61
11 RESTAURANT AND MISCELENEOUS GOODS AND SERVICES	12.03	3.66	8.37

These weights were derived from the 2006 FIES.

d. Formula. The formula used in computing the CPI is the weighted arithmetic mean of price relatives, the Laspeyre's formula with a fixed base year period (2006) weights.

e. Geographic Coverage. CPI values are computed at the national, regional, and provincial levels, and for selected cities. A separate CPI for NCR is also computed.

What is the inflation rate?

The inflation rate is the annual rate of change or the year-on-year change of the CPI expressed in percent. Inflation is interpreted in terms of declining purchasing power of money.

What is the purchasing power of the peso?

The purchasing power of the peso shows how much the peso in the base period is worth in the current period. It is computed as the reciprocal of the CPI for the period under review multiplied by 100.

What agencies are responsible for the generation of the CPI?

The NSO and the Bureau of Agricultural Statistics (BAS) collect price data for the index. The BAS is responsible for collecting prices for agricultural commodities in NCR and in the provinces covered by its responsibilities.

The NSO, on the other hand, collects prices for the non-agricultural commodities all over the country. Moreover, the NSO does all the price collections for all the commodities in areas not covered by BAS.

The NSO computes the CPI.

How many price quotations are collected and where and when are prices collected for the market basket?

For selected cities, six price quotations are collected on the first five days of the month and during the middle of each month.

In NCR, four price quotations are collected for each of the commodities in the market basket. Price collection for food is done weekly in 13 markets. For the non-food commodities, 13 markets are surveyed, and price collection is done on the first five days of the month and during the middle of each month.

For the provinces, two price quotations are collected at the provincial capital while four other price quotations are collected from the municipalities outside the capital during the first five days of the month. However, only two price quotations are collected from the provincial capital during the middle of each month.

For petroleum products, six price quotations are collected from each sample market for each commodity in 15 sample areas in NCR on a daily basis. In AONCR, two price quotations for each commodity are collected in the provincial capital every Friday, while four other price quotations for each commodity are

collected once a month from the municipalities outside the capital during the first five days of the month. For selected cities, six price quotations are collected every Friday.

The arithmetic average of these price quotations is used in the computation of the index.

How often is the CPI released?

The CPI is computed by the NSO on a monthly basis. It is available five days after the reference month.

How are the price indices information made available to the public?

The CPI series is posted on the NSO website at www.census.gov.ph upon its release and made available to the public in soft copies upon request.

Related special releases on CPI are also posted on the NSO website. Hard copies of special releases are available at the Economic Indices and Indicators Division (EIID), 4th Floor, Solicare Building II, Ramon Magsaysay Boulevard, Sta. Mesa, Manila with telephone numbers 7153347 and 7163935.

Detailed tables at the national and regional levels and provincial indices are available at EIID.

For further inquires, write, call or visit:

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