

Consumer Price Indices

Methodological note

The **Consumer Price Index for the whole nation (NIC)** is based on the consumption of the entire present population.

The **Harmonised index of Consumer Prices (HICP)**, calculated according to the EU regulations in force, is used for the comparison of inflation between Member States and as a key indicator for the monetary policy of the European Central Bank.

Consumer price indices are calculated using a chained Laspeyres formula, in which the basket of products and the weighting system are updated annually. Monthly indices for the current year are calculated with reference to December of the previous year (calculation base) and subsequently chained over the period chosen as a reference base in order to be able to measure price trends over a period of time longer than a year¹.

Reference base year for NIC and HICP

The NIC indices are expressed with 2010=100 as a reference base year².

The HICP, on the other hand, are calculated and published with 2005=100 as a reference base, as established by the Regulation (EC) no 1708/2005 of the 20th October 2005.

Classification for consumer expenditure, basket of goods

The classification of consumer spending adopted for the consumer price indices is the international COICOP (*Classification of Individual Consumption by Purpose*) whose hierarchical structure makes provision for three levels of disaggregation: *Divisions*, *Groups* and *Classes*.

Starting from data referred to January 2011, the indices are calculated according to a more detailed classification scheme which takes into account, with some adjustments, the proposed revision of the COICOP classification currently being discussed in Europe for disaggregation levels lower than *Classes*. The classification scheme, which is adopted for the three consumer price indices published by ISTAT, is distinguished by two additional lower levels of disaggregation, *Product Sub-Classes* and *Consumption segments*. Consumption segments are represented by a sample of products or groups of products items, called *Representative items*. In 2015, there are 618 representative items (1,441 products) for NIC and 623 representative items (1,457 products) for the HICP.

As regards NIC, the indices are released with a level of detail that reaches 326 consumption segments; NIC indices by type of products (a classification of goods and services different from the COICOP), by regulated and non-regulated products and by purchase frequency are also calculated and released.

As regards HICP, the indices are published with a level of detail of the COICOP-HICP product classes, in accordance with the publication carried out by Eurostat for the HICP of single EU countries and for the HICPs calculated for the EU and the EMU; furthermore, HICP indices by special aggregates (**HICP-SA**) are released. HICP-SA indices are calculated using the same classification scheme and the same method adopted by Eurostat (therefore different from the method used for the calculation of NIC indices by type of products), in order to guarantee comparability among the Italian HICPs and the HICP of the other EU countries and the HICPs for the EU and the euro area produced by Eurostat³.

¹ ISTAT calculates another index named Consumer Price Index for blue- and white-collar worker households (FOI) based on consumption of households whose reference person is an employee.

² The FOI indices are expressed with 2010=100 as a reference base year, too.

³ HICP-SA indices have been released starting from data referred to February 2013.

The description of product classes which are included in the special aggregates is available on Eurostat web site at the following link: http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=HICP_2000&StrLanguageCode=EN&IntPcKey=&StrLayoutCode=.

All indices are published in I.Stat, the warehouse of statistics produced by ISTAT, inside the theme Prices, sub-theme Consumer prices (<http://dati.istat.it/>). In I.Stat, in addition to indices at national level, NIC indices at provincial, regional and macro area level and FOI indices at provincial level are published.

Price collection and calculation method for seasonal product price indices

The method for collecting and calculating prices of seasonal products is in accordance with Regulation (EC) no 330/2009 of 22nd April 2009, which sets out minimum standards for dealing with seasonal products in the HICP⁴. This method, also used for the NIC⁵, is applied to the product groups and classes *Fruit, Vegetables, Clothing and Footwear*.

The European Regulation defines as a *seasonal product* one which, during certain periods of the year (of at least one month), it may not be possible to purchase, or is purchased in modest or insignificant volumes by consumers. It also establishes that in a given month seasonal products are considered *in season* or *out of season*.

On the basis of this standard, ISTAT has defined a monthly calendar for the whole 2015, which establishes in a given month when each specific product belonging to the abovementioned product groups or classes must be considered *in season* or *out of season*. The adoption of a seasonality calendar entails that the local consumer price survey is carried out only in months in which the product in question is defined as *in season*, while prices of *out of season* products will be estimated on the basis of a method that is consistent with standards contained in the aforementioned European regulation.

Survey geographical basis and rate of coverage, temporal coverage

Data contributing to the compilation of monthly consumer price indices are traditionally collected in two distinct surveys: the local survey, carried out by Municipal Offices of Statistics, under Istat supervision and coordination, and the central survey, carried out directly by Istat.

In 2015 the geographical basis of the survey is made up of 80 municipalities (19 regional capitals and 61 provincial capitals) – which participate in the indices calculation for all the representative items of the basket – and of other 12 municipalities participating in the survey for a subset of products which includes local tariffs (water supply, solid waste, sewerage collection, gas for domestic use, urban transport, taxi, car transfer ownership, canteens in schools, public day nursery, etc.) and some local services (building worker, football matches, cinema, theatre shows, secondary school education, canteens in universities etc.).

Overall, the coverage of the index, measured in terms of resident population in the provinces with capitals participating in the survey for all items in the basket, is 83.5%.

Concerning the basket subset including local tariffs and some local services – whose weight on the NIC basket is equal to 6.8% – with the participation of the other 12 municipalities, the coverage of the survey, measured in terms of provincial resident population, rises to 91.9%.

In the consumer price survey, in 2015, there are more than 41,300 statistical units (including outlets, enterprises and institutions) where the price of at least one product is monitored, as well as around 8,000 dwellings for observing rents. 501,900 prices are sent monthly to Istat by Municipal Offices of Statistics each month.

Prices collected each month directly by Istat are 95,600; among these, about 13,000 are collected using web scraping techniques for consumer electronics products price collection on Internet. The percentage of products observed directly by Istat, calculated according to the weight assigned to each product within the NIC, is 23.1%. Prices are collected at central level for those products (for a total of 76 representative items):

- that do show no variability along national territory or are administered at national or regional level (i.e. tobacco, telephone services, prescription medicines, magazine and other periodicals, some transport services such as national and regional railway transport);
- that are technically too complex to be collected at territorial level because of continuous technology changes (i.e. consumer electronics);

The HICP-SA calculation method is described in the HICP Compendium which is downloadable at the following link: <http://ec.europa.eu/eurostat/documents/3859598/5926625/KS-RA-13-017-EN.PDF/59eb2c1c-da1f-472c-b191-3d0c76521f9b?version=1.0>.

Back series starting from January 2001 are published on I.Stat, the warehouse of statistics produced by ISTAT, inside the theme Prices (<http://dati.istat.it/>).

⁴ It has been adopted starting from data referred to January 2011.

⁵ It is used for FOI indices, too.

- whose consumption is not strictly linked to the territorial areas (tourist services such as package holidays, bathing establishment etc.).

With regard to the local survey, price collection is carried out in the first fifteen working days:

- bi-monthly for products which show a strong temporal variability of their prices (fresh fruit and vegetables, fresh fish; transport fuels; gas in cylinder and heating oil);
- once a month, for the remaining products. For some goods or services, such as for example, water supply, town gas and natural gas, urban transport by bus and combined urban transport, taxi or tickets (contributions to NHS) for specialist practice, services of medical analysis laboratories and X-ray centres and other paramedical services, it is detected the price applied the 15th day of the month to which the index is referred.

Concerning the centralized survey, price collection is widely carried out once a month in the first fifteen working days. Hereafter the exceptions to the general rule:

- for some goods and services such as for example tobacco, games of chance, medicines, telecommunications services, regional railway transport, wagon lits, out of town bus services, out of town combined passenger transport, postal services, highway tolls, car transfer ownership, car overhaul, it is detected the price applied the 15th day of the month to which the index is referred;
- three times per month, according an annual calendar fixed at the beginning of the year, for national railway transport;
- bi-monthly for passenger transport by air, passenger transport by sea and inland waterway, local daily newspapers and magazines;
- on each day of the month for touristic, recreational and cultural services (fun parks entrance ticket, bathing establishment, ski lifts, etc.).

Weighting structure

In the table 1 the weighting structure for the year 2015 of NIC and HICP is reported.

TABLE 1. WEIGHTS USED FOR CALCULATING CONSUMER PRICE INDICES, BY EXPENDITURE DIVISION. YEAR 2015, percentage values

Expenditure divisions	Weights	
	NIC	HICP
Food and non-alcoholic beverages	16.5266	17.5648
Alcoholic beverages, tobacco	3.2606	3.4691
Clothing and footwear	7.0229	8.1002
Housing, water, electricity, gas and other fuels	11.5963	12.3585
Furnishings, household equipment and routine household maintenance	7.6036	8.1145
Health	8.4390	4.0036
Transport	13.8039	14.6884
Communication	2.5408	2.7079
Recreation and culture	7.8524	6.2208
Education	1.2085	1.2876
Restaurants and hotels	11.1555	11.8779
Miscellaneous goods and services	8.9899	9.6067
All items	100.0000	100.0000

Harmonized index of consumer prices at constant tax rates

The Harmonized Index of Consumer Prices at constant tax rates (**HICP-CT**)⁶ is calculated as established by the Regulation (EC) no 119/2013 of the 11th February 2013. It measures the change of prices at constant tax rates. It follows the same computation principles as the HICP, but is based on prices 'at constant tax rates'.

Prices at constant tax rates are estimated cancelling out the effects due to changes in taxes in the current month compared to the tax rates system in force in December of previous year (calculation period base).

⁶ The HICP-CT has been released starting from data referred to March 2012. Back series starting from January 2002 are published on I.Stat, inside the theme Prices (<http://dati.istat.it>).

The taxes considered in the HICP-CT are those directly linked to final consumption. They are mainly VAT, excise duties and other taxes on some specific items (such as cars and insurance). Subsidies and taxes paid on intermediate stages (e.g. production, transportation) are not taken into account. In principle, for the compilation of HICP-CT, all taxes should be included and kept constant; however, due to practical consideration, taxes which generate very small tax revenues may not be taken into account. In detail, according to recommendations reported in the Eurostat HICP-CT Manual, taxes which cover less than 2% of the total tax revenue can be excluded. On the whole, included taxes must cover a minimum of 90% total tax revenue. Therefore in the compilation of the Italian HICP-CT, taxes kept constant are the following: VAT, excise duties on tobacco and energy items (fuels, heating oil, gas, electricity, etc.), the main local surcharge on electricity and gas, tax for the public liability insurance and contribution to the National Health Service for transport means insurance. On the basis of National Accounts data taxes which cover less than 1% of the total tax revenue are excluded and, on the whole, taxes included cover almost 98% of total revenues carried out with taxes on final consumption.

The HICP-CT covers the same goods and services as those covered by the HICP. The same weight structure is applied as for the HICP (Table 1). As HICP, it has expressed 2005=100 as a reference base year.

The HICP-CT provides a measure of the **theoretical impact** of changes of indirect taxes on the overall HICP inflation. It has to be emphasised that it does not provide an exact measure of this impact, rather an indication for its upper limit. In effect, the difference between HICP and HICP-CT growth rates points to the theoretical impact of tax changes on overall HICP inflation, assuming an instantaneous and full pass-through of tax rate changes on the price paid by the consumer.

It has to be pointed out that, during the year, the Italian HICP-CT **may be revised** following introduction of methodological changes required by indirect taxation system changes. Data become final in the next year to the reference one.

Indices rates of change calculation

Hereafter formulae for the calculation of monthly, annual and annual average rates of change for consumer price indices are described⁷. The HICP formulae apply also to HICP-CT. The first expression concerns calculation of rates of change between indices in the same reference base period:

■ Monthly rate of change (NIC, HICP)

The monthly rate of change is the current month's index in respect to the previous month's index (with one decimal place), for example:

$$MOR(I_{Jan,2012}; I_{Feb,2012}) = Round\left(\frac{I_{Feb,2012}}{I_{Jan,2012}} \times 100 - 100; .1\right)$$

■ Annual rate of change (NIC, HICP)

The annual rate of change is the current month's index in respect to the same month's index a year previously (with one decimal place), for example:

$$ANR(I_{Feb,2011}; I_{Feb,2012}) = Round\left(\frac{I_{Feb,2012}}{I_{Feb,2011}} \times 100 - 100; .1\right)$$

■ Annual average rate of change (NIC)

The annual average rate of change is the current annual average index in respect to a previous annual average index (with one decimal place), for example:

$$AVR(I_{2011}; I_{2012}) = Round\left(\frac{I_{2012}}{I_{2011}} \times 100 - 100; .1\right)$$

⁷ The expressions and the rounding rules described for NIC are also carried out for FOI.

■ Annual average rate of change (HICP)

For the HICP, in a different way compared to NIC, the annual average rate of change is obtained directly from the monthly indices and therefore it is based on the unrounded annual average indices. This method, applied in compliance with Eurostat, guarantees international comparability of data. For example:

$$AVR(I_{2011}; I_{2012}) = Round \left(\frac{\sum (I_{Jan,2012} + I_{Feb,2012} + \dots + I_{Dec,2012})}{\sum (I_{Jan,2011} + I_{Feb,2011} + \dots + I_{Dec,2011})} \times 100 - 100; .1 \right)$$

The following expression describes the calculation of monthly rate of change between indices expressed in different reference base year; it can be also used for the calculation of the annual rate of change and the annual average rate of change:

■ Monthly rate of change - Indices expressed in different reference base year

$$\begin{aligned} MOR(I_{m,j}^{X_1}; I_{n,h}^{X_t}) &= \\ &= Round \left(\frac{I_{n,h}^{X_t}}{I_{m,j}^{X_1}} \times C(X_t; X_{t-1}) \times C(X_{t-1}; X_{t-2}) \times \dots \times C(X_2; X_1) \times 100 - 100; .1 \right) \end{aligned}$$

where $I_{m,j}^{X_1}$ is the index, with one decimal place, of the month m year j , expressed in the more remote reference base X_1 , $I_{n,h}^{X_t}$ is the index, with one decimal place, of the month n year h , expressed in the more recent reference base X_t , and $C(X_i; X_{i-1})$ with $i=2, \dots, t$ are the splicing coefficients between contiguous reference bases. These coefficients are equal to the annual average index of the year corresponding to the new reference base expressed in the previous base, divided by 100. They are as many as base changes have been carried out during the considered period.

Flash estimates of HICP: accuracy and computation methodology

Flash estimate of Italian HICP (and NIC) are usually published on the last working day of the reference month according to the Eurostat release calendar of HICP Flash estimate for euro area. Final data are generally published around 13 days later.

The aim of the inflation flash estimates is to provide a timely information on inflation, predicting as accurately as possible the final HICP (and NIC) annual rate of change released about two weeks later. The analysis of their revisions represents an important tool to evaluate the correct balancing between the two quality dimensions, timeliness and accuracy.

Totally in line with the Eurostat Statistics Explained on Inflation – methodology of the euro area flash estimate, this section analyses the accuracy of the Italian HICP flash estimates and describes the methodology used in their computation.

Accuracy of flash estimates

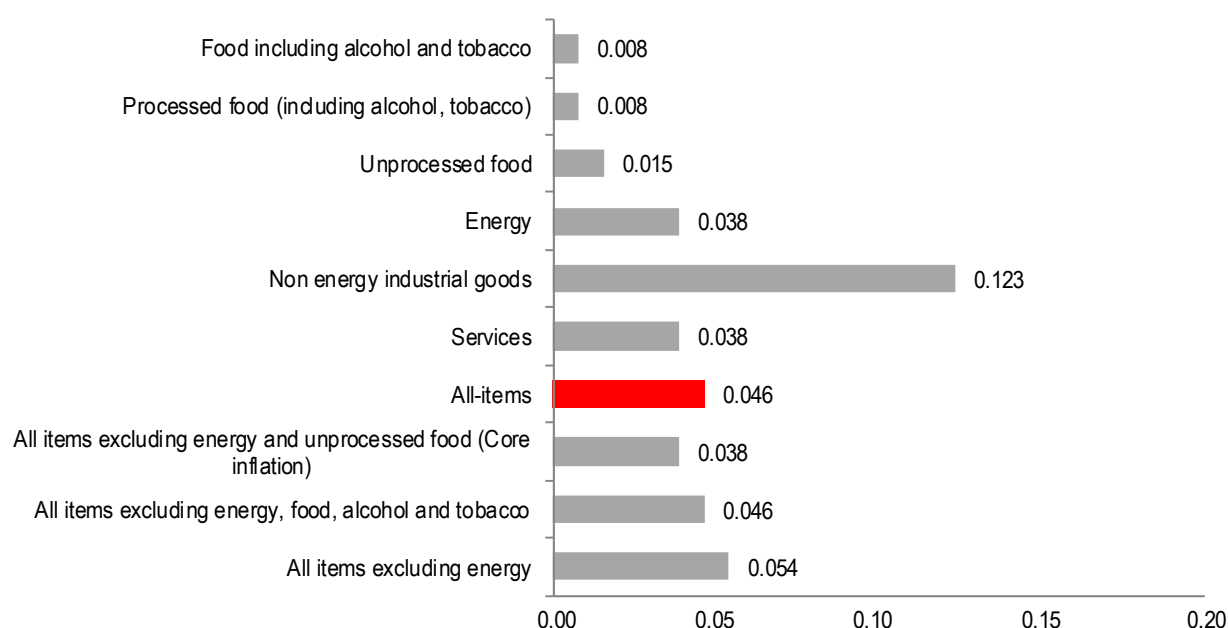
Table 2 compares the flash estimates and the final HICP annual rates for the same reference month. Over the last thirteen months, the maximum difference between the All items flash estimate and the HICP annual rate was 0.1. Over the same period, with reference to the main special aggregates, the maximum differences between the flash estimate and the final HICP annual rate concerned Energy (0.5 in April 2015) and Non energy industrial goods (0.4 and 0.3 respectively recorded in September 2014 and in January 2015). The highest differences for Non energy industrial goods together with the highest frequency of revisions (10 months out of 13 months) are mainly due to the sales dynamics of Clothing and footwear, for which the partial information available has a higher impact on the flash estimate and therefore it turns out to be less accurate.

TABLE 2. FLASH ESTIMATES AND HICP ANNUAL RATES FOR THE ALL-ITEMS AND MAIN SPECIAL AGGREGATES. JULY 2014-JULY 2015, percentage values (Base 2005=100)

Special aggregates		Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Food including alcohol and tobacco:	Flash	-0.7	-0.4	-0.2	0.0	0.3	-0.3	0.0	1.2	1.5	1.5	1.5	1.5	1.1
	HICP	-0.7	-0.4	-0.2	0.0	0.3	-0.3	0.0	1.2	1.4	1.5	1.5	1.5	1.1
Processed food (including alcohol, tobacco)	Flash	0.4	0.3	0.2	0.2	0.2	-0.1	0.1	0.9	1.0	1.0	1.1	1.0	1.0
	HICP	0.4	0.4	0.2	0.2	0.2	-0.1	0.1	0.9	1.0	1.0	1.1	1.0	1.0
Processed food	Flash	-2.4	-1.4	-0.8	-0.1	0.7	-0.7	-0.1	1.6	1.9	1.9	2.0	1.8	1.4
	HICP	-2.3	-1.4	-0.8	-0.1	0.7	-0.7	-0.2	1.6	1.9	1.9	2.0	1.8	1.4
Energy	Flash	-2.8	-3.7	-4.5	-2.4	-2.9	-5.3	-9.1	-8.4	-6.5	-5.9	-5.7	-5.8	-5.4
	HICP	-2.8	-3.7	-4.5	-2.4	-2.9	-5.3	-9.1	-8.4	-6.5	-6.4	-5.7	-5.8	-5.4
Non energy industrial goods	Flash	0.3	0.2	0.4	0.7	0.3	0.3	0.4	0.6	0.3	0.6	0.7	0.9	0.9
	HICP	0.2	0.1	0.8	0.6	0.4	0.4	0.1	0.6	0.5	0.6	0.8	0.9	0.8
Services	Flash	0.6	0.3	0.4	0.6	0.7	0.8	0.3	0.7	0.4	0.3	0.5	0.5	0.7
	HICP	0.6	0.3	0.3	0.6	0.8	0.9	0.4	0.7	0.4	0.2	0.5	0.5	0.7
All-items	Flash	0.0	-0.2	-0.2	0.2	0.2	-0.1	-0.4	0.1	-0.1	0.0	0.2	0.2	0.4
	HICP	0.0	-0.2	-0.1	0.2	0.3	-0.1	-0.5	0.1	0.0	-0.1	0.2	0.2	0.3
All items excluding energy and unprocessed food (Core inflation)	Flash	0.6	0.4	0.3	0.6	0.4	0.6	0.4	0.9	0.5	0.4	0.7	0.8	0.9
	HICP	0.5	0.4	0.4	0.5	0.5	0.6	0.4	0.9	0.6	0.4	0.7	0.8	0.9
All items excluding energy, food, alcohol and tobacco	Flash	0.6	0.4	0.3	0.7	0.5	0.7	0.5	0.9	0.3	0.3	0.7	0.7	1.0
	HICP	0.5	0.4	0.5	0.6	0.6	0.7	0.5	0.9	0.4	0.3	0.7	0.7	1.0
All items excluding energy	Flash	0.3	0.3	0.3	0.5	0.5	0.5	0.4	1.0	0.6	0.7	0.8	0.8	0.9
	HICP	0.3	0.2	0.3	0.4	0.6	0.5	0.3	1.0	0.7	0.6	0.8	0.9	0.9

The Mean Absolute Deviation (MAD) provides another way to measure accuracy. It is calculated as the average of the absolute differences between the flash estimate and the final HICP annual rate over the last thirteen months. Figure 1 shows the MAD for the all-item index and the main special aggregates. Over the last thirteen months, the Non energy industrial goods component has recorded the highest MAD (0.123 percentage points).

FIGURE 1. MEAN ABSOLUTE DEVIATION BETWEEN FLASH ESTIMATES AND HICP ANNUAL RATES. JULY 2014-JULY 2015, percentage points



The direction of inflation is correctly predicted if both the flash estimate and the final one show increasing (declining or no changing) annual rates of change with respect to those ones calculated in the previous month. There are three possible outcomes for the comparison of the direction of inflation:

- the flash estimate correctly predicts the direction of inflation, so the predicted rise, decline or no change in inflation is confirmed by final data (denoted by ●);
- the flash estimate wrongly predicts the direction of inflation, namely it predicts an increase when there is a decrease or vice versa (denoted by ●);
- the flash estimate points to an increase or a decrease but the final annual rate of change remains unchanged; or the flash estimate predicts no change in inflation but the final figure points to an increase or a decrease (denoted by ●).

Over the last thirteen months, the flash estimate accurately predicted the inflation's direction in 112 out of 130 estimates.

TABLE 3. FLASH ESTIMATE PREDICTION CAPACITY OF THE DIRECTION OF INFLATION MEASURED BY HICP. JULY 2014-JULY 2015

Special Aggregates	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Food including alcohol and tobacco:	●	●	●	●	●	●	●	●	●	●	●	●	●
Processed food (including alcohol, tobacco)	●	●	●	●	●	●	●	●	●	●	●	●	●
Unprocessed food	●	●	●	●	●	●	●	●	●	●	●	●	●
Energy	●	●	●	●	●	●	●	●	●	●	●	●	●
Non energy industrial goods	●	●	●	●	●	●	●	●	●	●	●	●	●
Services	●	●	●	●	●	●	●	●	●	●	●	●	●
All-items	●	●	●	●	●	●	●	●	●	●	●	●	●
All items excluding energy and unprocessed food (Core inflation)	●	●	●	●	●	●	●	●	●	●	●	●	●
All items excluding energy, food, alcohol and tobacco	●	●	●	●	●	●	●	●	●	●	●	●	●
All items excluding energy	●	●	●	●	●	●	●	●	●	●	●	●	●

Computation methodology of flash estimates

For the Italian HICP (and NIC) flash estimate compilation, each month,

- prices collected at local level by around 60 municipalities (out of 80) are used. Out of these municipalities, there are the 37 municipalities which calculate the preliminary local consumer price indices and publish them independently, at the same time of Istat national CPI and HICP release. Data collected by the other 12 municipalities participating in the survey for a subset of products (local tariffs and some local services) are not used; these data are used for the compilation of final indices;
- all prices collected directly by ISTAT (via internet and other sources) are used. These prices refer to 76 representative items which cover 21.4% (according to their weights) of the Italian HICP basket (23.1% of the NIC one).

As soon as indices are calculated for representative items for which prices are collected directly by ISTAT, representative item indices for the municipalities, which participate in the flash estimate of inflation rate, are compiled. For the other municipalities, which do not participate in the flash estimation, representative item indices are generally⁸ calculated applying to the indices of the previous month, the monthly rate of change of the regional representative item indices. The latter are calculated using data of municipalities which participate in the flash estimate, as follows:

⁸ For some representative items – among others, rents and local tariffs such as water supply, solid waste, sewerage collection, urban transport services by road – for the municipalities that do not participate in the flash estimation, indices are estimated by carrying forward the price of the previous month. The adoption of this different estimation technique is due to the fact that the evolution of prices in the other municipalities of the same region is not considered a satisfactory proxy.

$${}_R I_h^{m,a} = \sum_{i \in R} \left(\frac{{}_i \pi}{\sum_{i \in R} {}_i \pi} \right) \cdot {}_i I_h^{m,a}$$

where ${}_i I_h^{m,a}$ is the elementary index of representative item h at municipality level i of the reference month m of year a and $\frac{{}_i \pi}{\sum_{i \in R} {}_i \pi}$ is equal to the share of resident population in the municipality i of region R on the total resident population of the region.

As soon as representative item indices of all municipalities are compiled, regional and, then, national indices are calculated (by representative items, by upper aggregates and for all items).

If all municipalities of a certain region are not included in the flash estimate, the representative item indices of this region are calculated applying to the indices of the previous month, the monthly rate of change of national representative item indices. The latter are calculated using data of regions which participate in the flash estimate, as follows:

$$I_h^{m,a} = \sum_{R=1}^{20} \left(\frac{{}_R \pi_h}{\sum_{R=1}^{20} {}_R \pi_h} \right) \cdot {}_R I_h^{m,a}$$

where ${}_R I_h^{m,a}$ is elementary index of representative item h at regional level of the reference month (m) of year (a) and $\frac{{}_R \pi_h}{\sum_{R=1}^{20} {}_R \pi_h}$ is equal to the share of household consumption expenditure for the representative item h in the region R on the national household consumption expenditure for the same representative item.

Once representative item indices of all regions are compiled, national indices are calculated (by representative items, by upper aggregates and for all items).