

Consumer Price Index (CPI)
Definition
&
Groups Composition

CPI Definitions

Base year: the year used as the reference year for constructing an index. It is usually defined an arbitrary value of 100. For example, assume the base year is 2000 and the initial value of an index is 100. If the index is 180 in 2009, the value of the index will be 80% higher in 2009 compared to what it was in 2000. A base year is used for comparison by an index such as CPI.

Basket of goods and services: a fixed list of goods and services (market basket) that is used for tracking the prices of consumer goods and services offered at a specific market. It is the base for the definition of the Consumer Price Index (CPI). The list used would contain a number of food and household items commonly bought by a typical consumer. The items may be classified into groups such as “household items”, “personal goods and services”, “households services”, “housing” and other categories defined by the country’s survey methodology. The variations in the prices of the items on a monthly or quarterly basis provide an indication of trends in price.

Commodities: Tangible basic goods, such as food, grains, metal and oil which are produced in large quantities by many different producers and bought and sold in commerce. They are equivalent (as it does not depend of whom produces it) and maintain roughly a universal price that fluctuates on a daily basis based on global demand and supply

Commodity Group: a set of commodities of which any combination of quantities is described by common set of characteristics. [See Appendix 3 for details]

Domestic items: Any good, commodity or service purchased within countries for sale. It is provided to domestic consumers by local producers.

Imported items: Any good, commodity or service purchased from other countries for sale. It is provided to domestic consumers by foreign producers.

Import price index: It measures changes in a group of data points for imported goods, commodities or services. It includes only items that are imported for a country. For the FSM such include coffee, cars, fuel and computers among others.

Domestic price index: It measures changes in a group of data points for goods, commodities and services locally produced (e.g. bread loaf, sakau, electricity).

Index: a statistical measure of changes in a group of individual data points in an economy. The data can be derived from different sources such as prices, productivity, and employment. The CPI, for example, tracks the variation in prices for different consumer goods and services within the same city, region or country. Each index has a different methodology of calculation and it is usually expressed in terms of a change from a base value. It is often used to make adjustments in wages, salaries, pensions, and contracted or regulated prices.

Inflation: a persistent rise in the average price level of goods and services in the economy over time. When the price level increases, consumers tend to buy fewer goods and services, therefore inflation erodes the purchasing power of money.

Inflation rate: the percentage change in the price level from one period to another (e.g. from December 2009 to January 2010). CPI is the price index that is used to measure the inflation.

Deflation: it refers to a fall in the general price level.

Percentage change: Percentage represents a number as a fraction of 100 and is denoted using the sign “%”. Percentage change is used to express how small/large one quantity is relatively to another quantity. It represents a change in a variable between two periods, and is accordingly to a specific formula (percentage change = $V_2 - V_1 / V_1 * 100$; V_1 represents the old value and V_2 the new one). Both percent increase and percent decrease are measures of percent change and they represent the extent to which a variable gains or loses value, extent, and magnitude.

Percentage point: The unit for the difference of two percentages. For example, if inflation in country “X” was 6% in 2008 and rose to 7% in 2009, so inflation grew by one percentage point (7% - 6% = 1 percentage point)

Services: Intangible and insubstantial as they can’t be touched, handled, smelled or tasted. A service is owned or sold by the service provider who must generate and render the service to the requesting service consumer (e.g. hairdresser who delivers the service to a client; taxi driver who transports a consumer from one place to another). Types of services include transportation, health, education, communication and finance.

Weight: a measure of the relative importance of a specific item; e.g. rice has a high weight as it is an important item of consumer spending, so the price of rice is assigned a higher weight (say ‘15’) than soap (say ‘3’) due to the greater importance of rice to the consumers.

Groups Composition

Group	Sub-group	Examples of Items Priced
Food	Cereal & Cereal Products	Rice, Noodles, Bread
	Meat & Poultry	Pork, Canned Corned Beef, Frozen Chicken
	Fish	Fresh Tuna, Fresh Reef Fish, Canned Sardines
	Fruits & Vegetables	Onions, Taro, Bananas
	Dairy & Vegetable Products	Milk, Ice Cream, Eggs
	Non-Alcoholic Beverages	Softdrink, Orange Juice, Coffee
	Miscellaneous Foods	Sugar, Soy Sauce, Vegetable Oil
	Meals Away from Home	Restaurant Meals, School Lunch
Alcohol, Tobacco, Sakau, Betelnut	Alcohol	Beer, Vodka, Sakau
	Tobacco	Cigarette, Betelnut
Clothing & Footwear	Clothing	Shirt, Blouse, Diapers
	Footwear	Sneakers, Zorries
Housing	House Maintenance	Cement, Paint, Timber
	House Rent	House Rent
Fuel, Light and Water	Fuel	Kerosene, Butane or Cooking Gas
	Light	Electricity
	Water	Water
Services	Educational Services	Primary school fees, Secondary school fees, Notebook
	Medical Services	Hospital fee, Doctors fee, Medicine
	Personal Goods	Laundromat, Housekeeping
	Recreational Services	Fishing Equipment, DVD Rental, Cable TV
	Transportation & Communication	Taxi fare, Gasoline, Telephone Bill
Miscellaneous	Durable Furniture & Equipment	Refrigerator, TV Set, Car
	Non-Durable Furnishings	Mattress, Towel
	Utensils & Accessories	Cutlery, Kitchen Utensils, Plates
	Household Operations	Detergent, Mosquito Coil, Battery
	Personal Care and Effects	Soap, Deodorant, Shampoo