



EUROPEAN COMMISSION
EUROSTAT

Directorate G: Business Statistics
Unit G-6: Price statistics



HICP COMPLIANCE MONITORING

INFORMATION NOTE

ON THE HARMONIZED INDICES OF CONSUMER PRICES

FOR FRANCE

December 2009

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for France in late 2008. The statistical practices used to compile the HICP for France have been reviewed against HICP methodology and other guidelines and good practices in the field of consumer price indices.

This report takes account of publicly available information on the French national consumer price index (CPI) and the HICP for France, and additional information collected by Eurostat prior to, during and following a mission to the French National Institute for Statistics and Economic Studies (INSEE) held on 4 December 2008.

I. OVERALL ASSESSMENT

INSEE has completed several actions in order to improve the French HICP in recent years. The price statistics unit of INSEE follows high technical standards and Eurostat supports INSEE's efforts to undertake further improvements.

As the weight of France within the euro area and EU HICPs is very high, the French HICP merits particular attention.

Instances of non-compliance with the HICP methodology are limited and unlikely to have a major impact in practice on the HICP annual average rates of change. The French data pass all standard HICP validation tests – they are internally consistent and aggregate correctly. The HICP should be considered comparable to the HICPs of other EU countries.

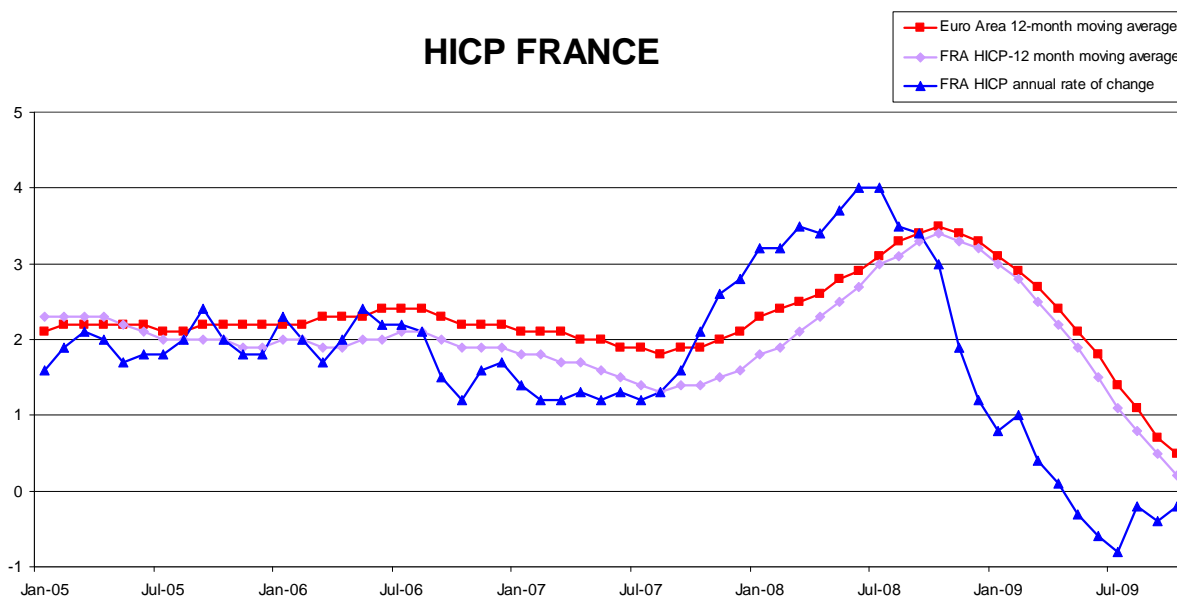
While the reliability of the HICP, in terms of precision and representativeness, appears generally adequate, in some cases the methodology or data used need improvement and/or further analysis, in particular the sampling and replacement methodology (see Section III). A targeted follow up of these cases will be carried out by INSEE and Eurostat.

II. RECENT PRICE DEVELOPMENTS

The focus of Eurostat's late 2008 assessment on price developments was on those headings which showed a significant impact on the 12-month moving average rate of change, such as fuels for transport, heating oil, milk, cheese and eggs, gas, cars, garments, telecommunications, audio-visual equipment and IT equipment.

In October 2008 the annual inflation rate for France was 3.0%, below the euro area average of 3.2%. France's 12-month moving average rate for the year to October 2008 was 3.4%, below the 3.5% for the euro area. The chart below shows the recent development in the 12-month moving average rate of change and the annual rate of change for France together with the euro area 12-month moving rate.

The most significant upward impacts on the HICP in October 2008 came from fuels for transport, heating oil, milk, cheese and eggs, gas, bread and cereals and meat. At the same time, significant downward impacts came mainly from, IT equipment, audio-visual equipment, garments, telecommunications, cars and photographic equipment.



Source: Eurostat.

III. FINDINGS AND RECOMMENDATIONS

For most headings both the methodology and data appear compliant, and the movements in both prices and weights in recent periods correctly reflect economic determinants. The item weights for 2008 referred to the year 2006 and were price-updated to December 2007.

The most important difference between the HICP and the national consumer price index (CPI) is that for health, education and social protection expenditures, the HICP uses prices which are net of reimbursements, whereas the CPI uses gross prices.

According to INSEE, no major methodological changes were planned for 2009. There was no evidence of non-compliance with HICP standards related to the temporal coverage of price collection in accordance with Council Regulation (EC) No 701/2006.

On the issue of first introducing new models and varieties by means of annual resampling, the systematic use of this practice involves a substantial recourse to overlapping. In the case of cars for instance (and possibly other products), it is important that the HICP fully reflects price changes when models and varieties of products are introduced.

Moreover, for some product groups, the French HICP appears overly concentrated towards a relatively narrow part of the market with the high and low ends not always sufficiently covered. It is thus important to ensure that the index is representative of the prices paid by all types of consumers through the systematic inclusion of a full market range of products (e.g. multimedia and high-end PCs).

In addition, some other headings with significant impacts on the HICP, the methodology or data used show some need for further analysis or improvement.

Eurostat recommends that:

- The following coverage issues be reviewed:
 - INSEE's strategy for price collection, to ensure that the full market range for products/services is systematically represented. In this regard, further analysis should be carried out to ensure that the structural features of retail are correctly represented and updated in the HICP (i.e. by size, type, target). For instance, INSEE should review its sample of personal computers to ensure full representativeness.
 - where internet purchases are significant, this needs to be reflected in the HICP. Presently this is only applied for very limited products. On the other hand, for those cases where central data collection does rely on information collected via the internet rather than via price collectors, an analysis should be carried out to ascertain whether the changes in internet prices are representative of actual transaction prices faced by consumers. Eurostat welcomes INSEE's plans to investigate this issue.
 - in the case of telecommunications, INSEE should improve its approach by following some of the best selling packages, and better take account of consumer switching among packages by improving the representativeness of consumption profiles.
 - in the case of transportation by air, INSEE should increase its sample size by enlarging the set of air carriers and by including low cost carriers. Moreover, all the components of the final price should be covered including service charges, agency fees, airport taxes, etc. INSEE should review its treatment of both air tickets and package holidays with a view to including last minute and advance bookings.
 - the coverage of insurance and house rentals should both be re-focused to cover both new and existing policies/contracts. Presently the French HICP only covers the former.
- with the introduction of Commission Regulation (EC) No 1334/2007 there is a need to revisit the issue of sample design, in particular consumption segments. INSEE should review its approach to sampling and replacement (currently based on the '*bien vendu bien suivi*' principle), and assess whether it represents the full range of goods and services purchased in either of the time periods being compared. This applies in particular to several items collected at both central and local level. (e.g. new cars and clothing).
- furthermore, replacements should be made in a timely manner within the year in order to maintain the dynamic representativeness of the index each month and to avoid a systematic use of overlapping when replacements are introduced.

- while Eurostat acknowledges that there may have been good reasons for using list prices in the calculation of the index for new cars, INSEE should review on a regular basis that the development of list prices accurately reflects the development of actual transaction prices.
- Eurostat welcomes INSEE's proposal to study new car registrations to take account of the possible change in weights as a result of the recent economic turmoil.
- prices collected less frequently than monthly should be collected monthly as required by the HICP framework, e.g. rents.