



EUROPEAN COMMISSION
EUROSTAT

Directorate G: Business Statistics
Unit G-6: Price statistics; Purchasing Power Parities



HICP COMPLIANCE MONITORING

INFORMATION NOTE

ON THE HARMONIZED INDICES OF CONSUMER PRICES FOR PORTUGAL

September 2010

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Portugal in late 2009. The statistical practices used to compile the HICP for Portugal 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 CPI and HICP for Portugal and additional information collected by Eurostat prior to, during and following a mission to Portugal – Instituto Nacional de Estatística (INE) - held on 17 December 2009.

I. OVERALL ASSESSMENT

INE has made some substantial methodological improvements in recent years, concerning in particular price collection and quality adjustment. Eurostat supports INE's plans to undertake further improvements to the HICP.

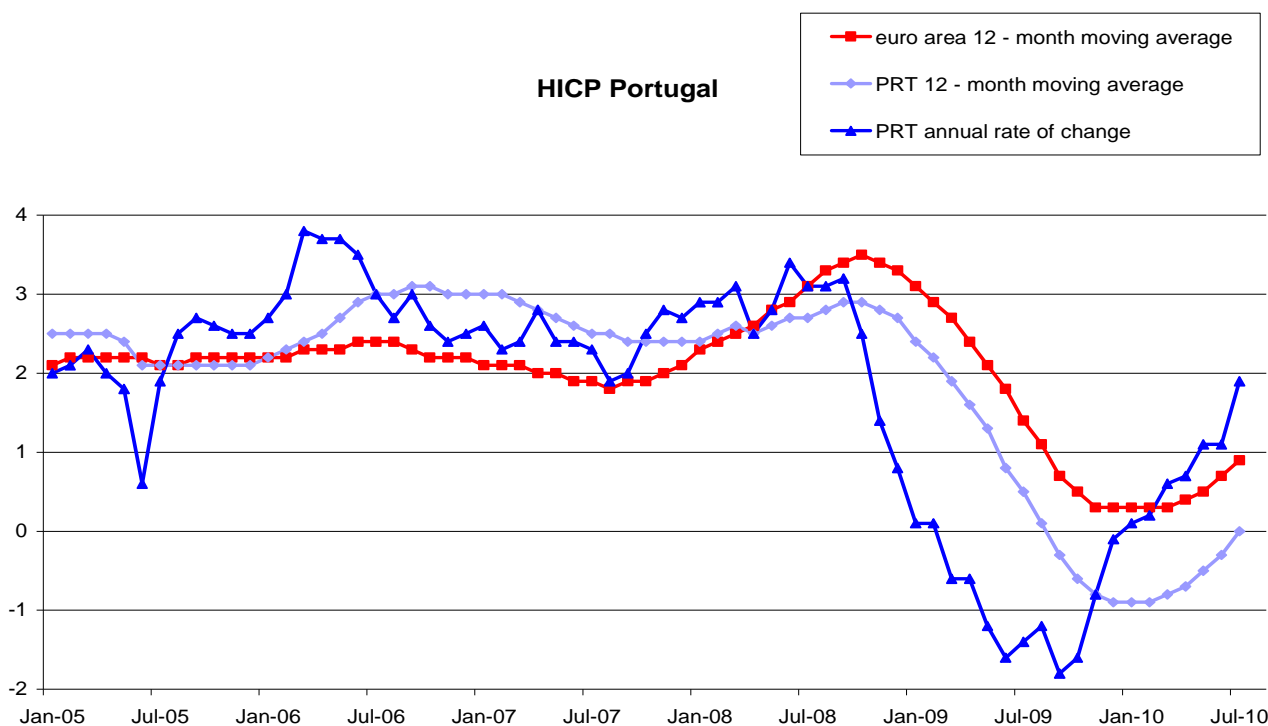
Instances of non-compliance with the HICP methodology are limited and unlikely to have a major impact in practice on the HICP annual average rate of change. The Portuguese data pass all standard HICP validation tests – they are internally consistent and aggregate correctly. The HICP should be considered 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 or further analysis (see Section III). A targeted follow up of these cases will be carried out by INE and Eurostat.

II. RECENT PRICE DEVELOPMENTS

The focus of Eurostat's late 2009 assessment on price developments was on these headings which showed a significant impact on the 12-month moving average rate of change. The most significant upwards impact on HICP in November 2009 came from restaurants and cafés, electricity, domestic services and tobacco. At the same time, significant downward impacts came in particular from fuels for transport, fish, pharmaceutical products and milk, cheese and eggs.

In November 2009, the annual inflation rate for Portugal was -0.8% which was below the euro area average of 0.5%. Portugal's 12-month moving average rate for the year to November 2009 was -0.8 %, below the corresponding 0.3% figure for the euro area. The chart below shows the development in the 12-month moving average rate of change and the annual rate of change for Portugal, together with the euro-area 12-month moving rate from January 2005 onwards.



III. FINDINGS AND RECOMMENDATIONS

For most headings, both the methodology and data appear compliant with HICP requirements, and the movements in both prices and weights in recent periods correctly reflect economic determinants. The item weights for 2009 referred to the Household Budget Survey 2005/2006 and National Accounts data for the year 2007 and were price-updated to December 2008. Eurostat supports INE plans to change from the Household Budget Survey to National Accounts as the main source for weights as from 2012.

The most important differences between the HICP and the national CPI for Portugal concern the consumption expenditures for residents abroad, which are excluded from the HICP and included in the CPI and expenditures of non-residents within the economic territory which are included in HICP but excluded from CPI. Furthermore, the HICP excludes "games of chance" while these are included in the CPI.

INE continues to work on the implementation of the new HICP requirements on seasonal items.

Internet price collection has been introduced for electricity, natural gas, air fares, subway and boat tickets, bridge tolls, telecommunications, concerts, hotels and insurances.

Eurostat supports the progress INE is making to implement the use of PDAs (personal digital assistant) for price collection in the regions.

Eurostat welcomes INE's review of the treatment of both air tickets and package holidays which are to include last minute and advance bookings.

For a number of product groups (such as household appliances, furniture and repair services), INE uses a rotating sample design. In the cases involved, prices are collected for one third of the sampled outlets each month.

Even where prices should in principle be collected monthly, a rotating sample design may be justifiable, particularly if this allows for a larger number of outlets in the total sample and the compilation of regional HICPs, subject to the relevant recommendations made below.

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

Eurostat recommends that:

- where the rotating sample design is being used, prices be collected for all sampled outlets during one or a few months of the year, particularly in those months where most prices are known to change, and in December which is the month where weights are updated and where chain-linking is performed.
- where parts of the prices are not observed in a particular month, the non-observed prices be estimated on the basis of the actual price observations in that month rather than being carried forward.
- with the introduction of EC Regulation 1334/2007, there is a need to revisit the issue of sample design, in particular consumption segments. INE should review its approach to sampling and assess whether it represents the full range of goods and services purchased in either of the time periods being compared, especially the higher end of the market. Eurostat welcomes the work that INE has already been undertaking in this regard.
- INE undertake a study in order to find out the significance of the consumption pattern for people living in institutions.
- the coverage of insurance be re-focused to cover both new and existing contracts/policies. Presently, the Portuguese HICP excludes existing insurance policies.
- quality adjustment by planned replication and adjustments be replaced by other more explicit quality adjustment methods, in order to allow for such adjustments where appropriate.
- INE continue to develop a systematic monitoring of outlet structures in the regions, with a view to ensuring that these are representative.
- INE carry out tests on alternative methodological options on price collection procedures for some CPI items such as air travel fares, books and CDs.