



EUROPEAN COMMISSION

Directorate D: Economic and Regional Statistics
Unit D-4: Price statistics



HICP COMPLIANCE MONITORING

INFORMATION NOTE ON THE HARMONIZED INDICES OF CONSUMER PRICES FOR ITALY

NOVEMBER 2007

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Italy in summer 2007. The statistical practices used to compile the HICP for Italy 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 Italy, and additional information collected by Eurostat prior to and during missions to the Statistical Office of Italy (ISTAT) on 29-30 May and 7 September 2007.

I. OVERALL ASSESSMENT

Eurostat considers that for the most part the methods used for producing the Italian HICP are satisfactory. The Statistical Office of Italy has completed many actions in order to improve the Italian HICP in recent years. ISTAT has achieved important progress in the field of sampling by setting up precisely defined consumer profiles. Eurostat supports ISTAT's efforts to develop the consumer profile approach and widen its use further. ISTAT plans to carry out testing of this approach in 2008.

The Italian HICP appears to be consistent. With the changes implemented with the index for January 2007, the index aggregates correctly and is in practice free of rounding effects. Nevertheless, there are some apparent instances of non-compliance with the HICP methodology.

While the representativity of the HICP, in terms of accuracy and reliability, seems generally adequate, in some cases the methodology or data used need improvement and/or further analysis (see Section III). A targeted follow up of these cases will be carried out by ISTAT and Eurostat.

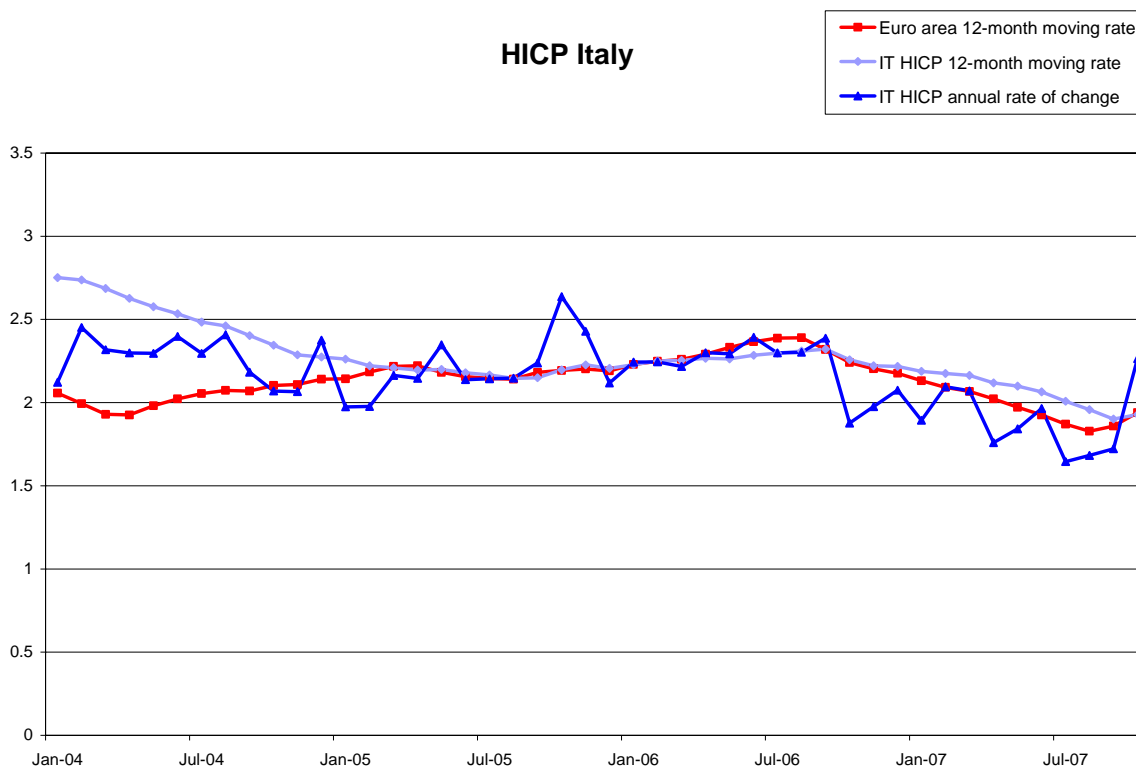
II. RECENT PRICE DEVELOPMENTS

The focus of Eurostat's assessment of summer 2007 was on administered prices and on those prices which were having a particularly important impact on the most recent Italian HICP data, in particular prices for electricity, gas, jewellery and watches, telecommunications and garments.

In October 2007, the Italian HICP annual inflation rate was 2.3%, below the euro area average of 2.6%. Italy's 12-month moving average rate for the year to October 2007 was equal to the 1.9% figure for the euro area. The chart below shows the recent developments in the 12-month moving average rate and the annual rate of change for Italy together with that for the euro area.

On average, the most significant upward impacts on the HICP in the year to August 2007 came from electricity, restaurants and cafes, tobacco, maintenance of vehicles, meat, and jewellery and watches and, to an extent, gas. Price increases for these items in the last year have been partly offset by lower inflation rates for some other products such as telecommunications, fuel for transport and garments.

Prices of about 6% of goods and approximately 7% of services, e.g. spirits, tobacco, water supply, refuse collection, electricity, gas, transport services, motorway fees, postal services, TV licences, secondary education, are administered to a varying extent in Italy.



III. FINDINGS AND RECOMMENDATIONS

For most headings within the HICP for Italy both the methodology and data seem to be satisfactory, and the movements in both prices and weights in recent periods correctly reflect economic determinants. Nevertheless, for some goods and services the methodology or data used show a need for further analysis or improvement.

Since October 2006, ISTAT has implemented the HICP standards related to the temporal coverage of price collection, which is due to be implemented with the index for January 2008 in accordance with Regulation (EC) No 701/2006. Documentation on the effects of the change is being released on ISTAT's website every month in the period to December 2007.

Concerning income-dependent prices, price changes resulting from income changes of households are not reflected in the Italian HICP as required by Article 4 of Council Regulation (EC) No 2166/1999. This is particularly the case for school canteens and public kindergartens. Eurostat supports the plans of ISTAT to undertake the necessary steps starting from 2008 to ensure that the standard is observed.

Price observations for services enter into the Italian HICP when they are observed. Regulation (EC) No. 2601/2000 requires that they enter into the index when the consumption of the service can commence. In the case of e.g. flights there can be considerable differences between the time of purchase and the time the service is used. Eurostat welcomes the plans of ISTAT to take account of the prices of flights when they are consumed, starting from December 2007. In the case of package holidays research should be carried out to establish whether the prices collected from price lists are also representative for last minute and advance bookings.

In the case of seasonal items the last observed price is carried forward or imputed using the average rate of change within the same stratum over the full season where the product is unavailable. Indices for fresh fruits and vegetables are calculated as 13-months moving averages. This method dampens seasonal fluctuations in the index and the indices do not reflect the actual month-to-month and year-on-year price movements; it is not compliant with existing standards as it fails to meet the comparability requirement laid down in Article 4 of Regulation (EC) No 2494/95. There is agreement between ISTAT and Eurostat that this method should be changed when a new standard on the treatment of seasonal items will be implemented.

For the most part, prices are collected at least monthly. The prices of some items, which demonstrate sharp and irregular changes, are collected twice monthly in the same outlet. In case of energy and fuel, Eurostat would recommend an assessment of collecting prices on a third day within the same month. For about 22% of the expenditure covered by the HICP, prices are collected only quarterly. For furniture, personal care, out-patient services and rentals for housing, the representativity of the index as regards the average change of prices between any two months being compared is thereby not ensured. Eurostat supports the plans of ISTAT to extend monthly price collection to another 12% of the sample as from January 2008. For the remaining 10%, according to ISTAT's plans, the frequency of data collection will be improved from January 2009.

For the CPI, national law restricts price collection to all municipalities with more than 30,000 inhabitants having a municipal statistical office. The Italian HICP as well as CPI actually covers data from 85 main towns which cover 27% of the Italian population. Villages and rural areas are not covered. This restriction by national law is not binding for the HICP, where price collection might need to be extended.

Eurostat recommends that:

- Further analysis be carried out to ascertain that the HICP is representative of the whole consumer population's purchases within the economic territory including also rural areas.
- Where central data collection relies on information collected via the internet, analysis be carried out in order to establish that movements in internet prices are representative of movements in all actual transaction prices faced by consumers.
- Where new outlets are identified via internet, further evidence be provided that the Italian outlet structure, including internet shopping, is correctly represented in the HICP.
- Where ISTAT represents consumer profiles by means of the lowest available prices for each profile, this is particularly the case in the central data collection, evidence be provided that price changes are representative of consumption as a whole of such products and the representativity of the sample is maintained from month to month. Highest priority should be given to telecommunications.
- Further analysis be carried out in order to demonstrate that collecting rents for apartments only is sufficiently representative of the whole rentals market.

- Further analysis of insurance weights, including comparisons with alternative data sources, be carried out in order to ensure that insurance weights are representative.
- ISTAT undertakes the necessary steps to verify that, in case of missing observations, price changes are reproduced correctly and the representativity of the sample is maintained from month to month. Currently, missing prices are carried forward or estimated for up to two months before they are replaced. Replacement prices are introduced in the sample by means of a retrospective price collection for the previous month.
- Efforts be made to allow explicitly for quality changes for newspapers and periodicals or for pricing newspapers and periodicals including supplements or other products as self-standing items. Currently, the minimum available prices are followed regardless of price changes as a result of including or excluding supplements or other products provided with the newspaper.
- Finally, further efforts be made to apply explicit quality adjustment methods.