

June 2002

Euro-zone annual inflation down to 1.8%

EU15 down to 1.6%

Euro-zone annual inflation fell from 2.0% in May to 1.8% in June¹ 2002, **Eurostat – the Statistical Office of the European Communities in Luxembourg** – reports today. A year earlier the rate was 3.0%.

EU15 annual inflation fell from 1.8% in May to 1.6% in June 2002. A year earlier the rate was 2.8%.

EEA annual inflation was 1.6% in June 2002.

Inflation in Member States

In June, highest annual rates were in **Ireland** (4.5%), the **Netherlands** (3.9%) and **Greece** (3.6%); lowest rates were in the **United Kingdom** (0.6%), **Germany** (0.7%) and **Belgium** (0.8%).

Compared with May 2002, annual inflation fell in nine Member States, rose in three and remained stable in three. Compared with June 2001, the biggest relative falls were in **Germany** (3.1% to 0.7%), **Belgium** (3.0% to 0.8%) and the **United Kingdom** (1.7% to 0.6%). The only relative rise was in **Ireland** (4.3% to 4.5%).

Lowest 12-month averages² up to June 2002 were in the **United Kingdom** (1.2%), **Luxembourg** and **Germany** (1.8% each); highest were in the **Netherlands** (4.7%), **Ireland** (4.4%) and **Greece** (3.9%).

USA and Switzerland

Annual inflation fell from 0.6% to 0.3% in **Switzerland**. Data from the **USA** were not yet available in time for publication. These indices are not strictly comparable with **EU** harmonized indices.

Annual inflation (%) in June 2002 – in ascending order

UK	D	B	L	A	F	FIN	EU15	S	Euro-zone	DK	I	E	P	GR	NL	IRL
0.6	0.7	0.8	1.3	1.5p	1.5p	1.5	1.6p	1.7	1.8p	2.2	2.2p	3.4	3.5	3.6	3.9p	4.5

Inflation rates in %, measured by HICPs

Table 1	Annual rates					12 Month Average Rates ²	Monthly rates
	<u>Jun 02</u>	<u>May 02</u>	<u>Apr 02</u>	<u>Mar 02</u>	<u>Jun 01</u>		
	Jun 01	May 01	Apr 01	Mar 01	Jun 00		
Belgium	0.8	1.4	1.7	2.5	3.0	2.0	-0.3
Germany	0.7	1.0	1.6	1.9	3.1	1.8	-0.1
Greece	3.6	3.8	4.1	4.4	4.5	3.9	-0.2
Spain	3.4	3.7	3.7	3.2	3.8	2.9	0.0
France	1.5p	1.5	2.1	2.2	2.2	1.9p	0.0p
Ireland	4.5	5.0	5.0	5.1	4.3	4.4	0.2
Italy	2.2p	2.4	2.5	2.5	2.9	2.3p	0.1p
Luxembourg	1.3	1.3	1.9	1.7	2.7	1.8	0.3
Netherlands	3.9p	3.8	4.2	4.3	5.1	4.7p	-0.3p
Austria	1.5p	1.7r	1.7	1.7	2.6	2.0p	-0.1p
Portugal	3.5	3.4	3.5	3.3	4.6	3.8	0.3
Finland	1.5	1.8	2.6	2.6	3.0	2.4	-0.2
Euro-zone (MUICP)	1.8p	2.0	2.4	2.5	3.0	2.3p	0.0p
Denmark	2.2	1.9	2.3	2.5	2.2	2.2	0.1
Sweden	1.7	1.7	2.2	3.0	3.0	2.7	-0.2
United Kingdom	0.6	0.8	1.3	1.5	1.7	1.2	0.0
EU15 (EICP)	1.6p	1.8	2.2	2.3	2.8	2.1p	0.0p
Iceland	4.7	6.0	7.7	9.1	7.2	8.1	0.6
Norway	-0.4	-0.4	-0.1	0.4	3.3	1.0	0.0
EEA (EEAICP)	1.6p	1.8	2.2	2.3	2.8	2.1p	0.0p

Source: Eurostat

p = provisional

r = revised

Table 2	Weight used in 2002	Annual rates					12 Month Average Rates ²	Monthly rates
		<u>Jun 02</u>	<u>May 02</u>	<u>Apr 02</u>	<u>Mar 02</u>	<u>Jun 01</u>		
		Jun 01	May 01	Apr 01	Mar 01	Jun 00		
Euro-zone MUICP								
00 All-items	1000	1.8p	2.0	2.4	2.5	3.0	2.3p	0.0p
01 Food	164.2	1.9p	2.4	3.4	4.3	5.8	4.6p	-0.4p
02 Alcohol and tobacco	39.7	4.1p	3.9	3.9	3.7	3.0	3.5p	0.3p
03 Clothing	80.0	2.2p	2.4	2.4	2.2	1.4	1.6p	-0.3p
04 Housing	150.0	0.6p	1.1	1.3	1.3	4.1	1.6p	-0.2p
05 Household equipment	79.2	1.7p	1.8	1.8	1.8	2.0	1.9p	0.0p
06 Health	39.0	2.2p	2.4	2.6	2.3	1.3	1.7p	0.0p
07 Transport	151.6	0.4p	0.5	1.6	1.2	2.0	0.4p	-0.4p
08 Communications	24.9	-0.8p	-0.9	-0.8	-1.1	-2.8	-1.6p	0.0p
09 Recreation and culture	94.7	1.7p	1.9	1.4	2.0	1.8	1.7p	0.2p
10 Education	9.4	4.0p	4.0	4.0	4.1	2.9	3.6p	0.0p
11 Hotels and restaurants	90.3	4.7p	4.7	4.4	4.6	3.2	4.0p	0.4p
12 Miscellaneous	77.0	3.1p	3.2	3.1	3.3	2.9	3.2p	0.1p
All-items								
-excl. energy	913.6	2.4p	2.6	2.7	2.9	2.7	2.7p	0.0p
-excl. energy, FoodAlcTob*)	709.7	2.5p	2.6	2.4	2.5	2.0	2.2p	0.1p
-excl. energy, unproc.food**)	832.5	2.6p	2.6	2.6	2.6	2.1	2.4p	0.1p
-excl. energy, seas.food***)	874.1	2.4p	2.5	2.5	2.6	2.5	2.5p	0.1p
-excl. tobacco	977.3	1.7p	2.0	2.3	2.4	3.0	2.2p	-0.1p
Energy	86.4	-3.6p	-2.9	-0.5	-1.6	5.4	-1.9p	-1.0p
FoodAlcTob*)	203.9	2.3p	2.7	3.6	4.2	5.3	4.4p	-0.2p

Source: Eurostat

*)FoodAlcTob = Food, alcohol and tobacco

p = provisional

***)unprocessed food = fish, fruit, vegetables and meat

****)seasonal food = fish, fruit and vegetables

BACKGROUND NOTES

Measures of inflation

The *annual rate* measures the price change between the current month and the same month of the previous year. This measure is responsive to recent changes in price levels but can be influenced by one-off effects in either month.

The 12-month average rate² overcomes this volatility by comparing average Harmonized Indices of Consumer Prices (HICPs) in the latest 12 months to the average of the previous 12 months. This measure is less sensitive to transient changes in prices.

The monthly rate compares price levels between the two latest months. Although up-to-date, it can be affected by seasonal and other effects.

HICPs designed for international comparison

HICPs are harmonized inflation figures required under Article 121 of the Treaty of Amsterdam (109j of Treaty on European Union). They are designed for international comparison of consumer price inflation. The focus is on quality and comparability among the indices of different countries as well as on their relative movements.

Price changes as measured by the HICPs, the Monetary Union Index of Consumer Prices (MUICP), the European Index of Consumer Prices (EICP) and the European Economic Area Index of Consumer Prices (EEAICP) are used as measures of inflation in the Member States, in the euro-zone, in the European Union, and in the European Economic Area.

The MUICP is used by, among others, the European Central Bank (ECB) as a main indicator for monetary policy management for the euro-zone³.

The HICP is computed as an annual chain index allowing weights to be changed each year. HICP aggregates are calculated as weighted averages of the HICPs using the weights of the countries and sub-indices concerned. The weight of a country is its share of the household final monetary consumption expenditure in the euro-zone total. For the MUICP this is expressed in euro, for the EICP and the EEAICP it is expressed in purchasing power standards. The MUICP is treated as a single entity within the EICP and EEAICP starting from 1999.

Additional information

More information⁴ on HICPs can be obtained from the monthly publication *Statistics in focus, Economy and Finance, Harmonized indices of consumer prices*. About 100 MUICP, EICP, EEAICP and HICP sub-indices with corresponding weights are available on Eurostat's database NewCronos through Eurostat's Data Shop network.

Future release dates

Provisional publication dates for the coming months are:

Index for	MUICP flash estimates	News release on MUICP, EICP and Member States
July 2002	31 July 2002	19 August 2002
August 2002	30 August 2002	18 September 2002
September 2002	30 September 2002	16 October 2002

- 1) The MUICP flash estimate for June 2002, published on 28 June 2002, was 1.7%.
- 2) Measure used to determine price stability in Convergence reports of 1998 and 2000 by the Commission to the Council.
- 3) See ECB press release, 13 October 1998.
- 4) For technical notes on HICPs see: Eurostat news release 21/97, 5 March 1997, *Harmonizing the way EU measures inflation* and Eurostat Memo 8/98, 4 May 1998 *New monetary union index of consumer prices (MUICP)*, Eurostat Memo 02/00, 18 February 2000 *Improved EU Harmonized Index of Consumer Prices: Extended coverage and earlier release dates for the HICP*. Further details can be found in *Compendium of HICP reference documents – (2/2001/B/5)*. All are available on Eurostat's Internet server.

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The average rate of change in the euro-zone HICP between the first six months of 2002 and the last six months of 2001 was 1.4%. This rate was the same as the six-month rate ending in June 2001 and close to the corresponding rates to June and December 2000.

The largest part of the price increases over this period can for most item groups -according to Eurostat's analysis - be explained by a normal inflation pattern and by some special non-euro factors; in particular bad weather affecting fruit and vegetable prices, car and energy prices, and some significant tax increases on tobacco. These factors can explain as much as 1.2 rate points out of the total of 1.4%. The contribution to the 1.4% total of the changeover to euro notes and coins most likely falls within the range of 0.0% to 0.2%. However, this estimate is subject to some uncertainty given the passage of time and the length of the period analysed.

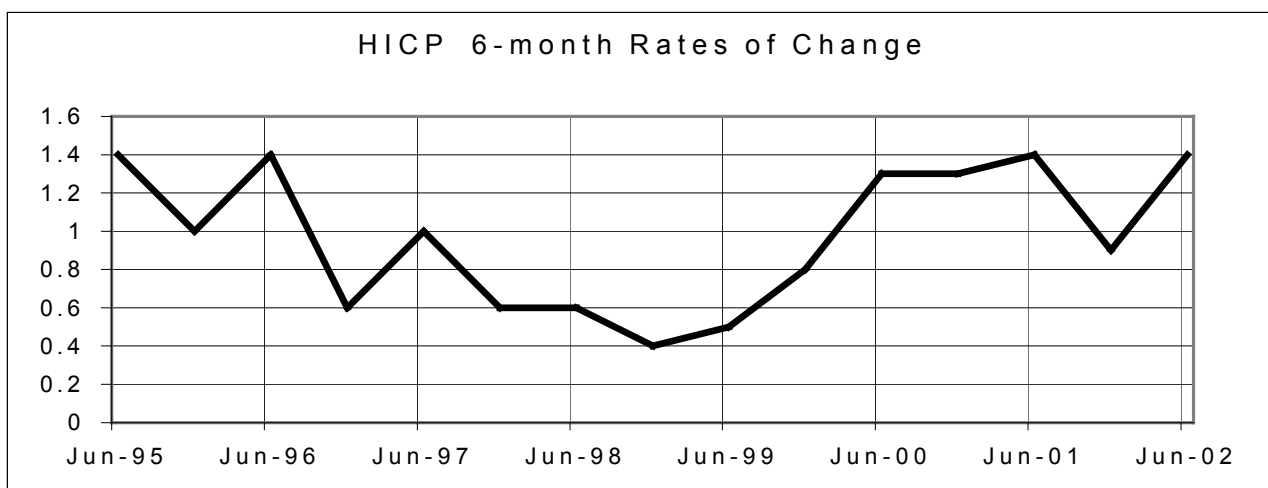
This range is slightly higher than the 0.0% to 0.16% range estimated for the month-on-month change between December 2001 and January 2002 and the quarter-on-quarter change between the last quarter of 2001 and the first quarter of 2002, as first published by Eurostat in February and May 2002 and reconfirmed here.

The analyses presented here show that, although price increases for certain types and goods and services have been significant, the changeover effect has not been a driving factor for price inflation as measured by the all-items index during the first half of 2002.

Analysis of first six months of 2002

Six-month rate of change

The six-month rate of change¹ for the euro-zone HICP is shown in the table below. This rate was the same as the six-month rate ending in June 2001 and close to the corresponding rates ending in June and December 2000.



¹ The average index level of the latest six-month period divided by the average for the previous six months. It should be noted that the seasonal pattern in 2001 changed compared with earlier years because of full harmonization regarding the inclusion of sales prices in the HICP.

Table 1: Euro-zone HICP six-month rate of change in % for period ending in:

	Jun-98	Dec-98	Jun-99	Dec-99	Jun-00	Dec-00	Jun-01	Dec-01	Jun-02
00 All-items	0.6	0.4	0.6	0.8	1.3	1.3	1.4	0.9	1.4
01 Food	1.3	-0.2	0.8	-1.1	1.4	0.6	3.8	1.5	2.2
02 Alcohol and tobacco	1.6	1.3	1.2	1.0	1.3	0.6	1.9	1.1	2.8
03 Clothing	0.4	0.6	0.4	0.5	0.2	0.5	-0.5	1.4	0.9
04 Housing	0.5	0.2	0.6	1.4	2.0	3.0	1.5	0.7	0.4
05 Household equipment	0.6	0.6	0.5	0.3	0.5	0.6	1.1	0.9	1.0
06 Health	2.6	1.3	1.2	0.8	1.0	0.8	0.4	0.7	1.5
07 Transport	-0.1	0.0	0.6	2.8	2.8	2.2	0.4	-0.5	1.3
08 Communications	-0.8	-0.1	-3.6	-1.5	-2.5	-2.0	-1.6	-0.5	-0.6
09 Recreation and culture	0.3	0.7	-0.2	0.5	-0.1	0.9	0.9	0.8	0.9
10 Education	1.3	1.1	1.3	1.1	1.5	1.6	1.3	1.8	2.1
11 Hotels and restaurants	1.1	1.2	1.0	1.2	1.3	1.5	1.5	1.9	2.5
12 Miscellaneous	0.4	0.5	0.9	0.8	1.3	0.9	1.8	1.4	1.9
All-items excl. energy	0.9	0.6	0.5	0.2	0.8	0.8	1.4	1.2	1.6
-excl. energy, FoodAlcTob**)	0.8	0.7	0.4	0.6	0.6	0.8	0.9	1.1	1.3
-excl. energy, unproc. food	0.8	0.7	0.5	0.6	0.6	0.8	1.0	1.2	1.4
-excl. energy, seasonal food	0.6	0.6	0.3	0.6	0.6	0.8	1.2	1.2	1.3
Energy	-2.0	-1.9	0.4	6.0	6.6	6.6	0.5	-2.0	-0.2
FoodAlcTob**)	1.3	0.0	0.9	-0.7	1.4	0.7	3.4	1.5	2.3

Euro-changeover inflation

In practice it is not possible for price index compilers to put a precise figure on the impact of the changeover. The best that can be done is to identify a "most likely range" for the changeover effect.

There is no way to be sure what inflation would have been if the euro changeover had not taken place. Even at the lowest level of detail, there are many factors - regular, irregular, random and systematic ones - which overlap with potential changeover effects, and there are a multitude of potential changeover effects which may amplify each other or cancel out. As time has passed since the changeover, more price data has become available for analysis. But also there is more opportunity for other effects - not related to changeover - to influence the analyses.

Eurostat has released two earlier analyses of the euro changeover effects. The first was published on 28 February 2002 (annex to News Release N° 23/2002) and focused on the month-to-month changes between December 2001 and January 2002. The second published on 16 May 2002 (annex to News Release Nr 58/2002) focused on the changes between the last quarter of 2001 and the first quarter of 2002. The analyses have now been extended to include data for the first six months of 2002. The approach has again been to identify regular and special non-euro factors affecting the HICP in the period surrounding the changeover. The sources of the remaining factors have been assessed in order to identify a "grey zone", which can serve as the basis of an estimate of the 'most likely range' for the impact of the euro changeover on prices in the all-items HICP.

In more detail, three approaches have been followed:

1. Eurostat has used statistical techniques to identify those HICP sub-indices showing a price change which is outside what the past data would predict, and
2. compared the price development of the euro-zone with the price development in non-euro-zone countries.
3. Finally, to complement the first analysis, Eurostat has analysed the detailed HICP sub-indices to identify those expenditure groups showing the highest level of the 6-month rates since the beginning of the HICP series in 1995.

Product group analysis

Table 1 contains the "contributions" to unusual price changes by certain item groups calculated as a weighted difference between the expected and the actual value for the item group.

The results of the first two columns are as published in February and May 2002 by Eurostat; the 3rd shows the contribution to the 6-month rate ending in June 2002.

Table 2: Decomposition of euro-zone inflation (in rate points)

COICOP-group	Source	Contribution Dec01 – Jan02	Contribution Q4/01 – Q1/02	Contribution 6-month rate ending June 2002
1111	Restaurants, cafes, and the like	+0.07	+0.05	+0.10
06	Health	-	+0.03	+0.04
0411/2	Rents	+0.02	+0.02	+0.03
0933	Gardens, plants, and flowers	+0.01	+0.01	+0.01
0112	Meat	-0.01	-	-
1211	Hairdressing salons and personal grooming establishments	0.00	+0.01	+0.01
0111	Bread and cereals	0.00	+0.01	-
1212_3	Electric appliances, articles and products for personal care	-	-	-0.02
	Remaining items not mentioned elsewhere	+0.07	+0.03(*)	+0.03
	Total "unusual" price increases	+0.16	+0.16	0.20

(*) Includes a contribution of 0.02 from purchase of cars

The contribution to the 1.4% total of the effect of the changeover to euro notes and coins most likely falls within a range of 0.0% to 0.2%. This is slightly higher than the range estimated for the month-on-month change between December 2001 and January 2002 and the quarter-on-quarter change between the last quarter of 2001 and the first quarter of 2002. However, the uncertainty of such estimates also increases with the passage of time and the length of the period analysed.

Looking at the first six months of 2002, the largest part of the price increase for most item groups can, according to Eurostat's analysis, be explained by a normal inflation pattern and by some special non-euro factors – in particular bad weather affecting fruit and vegetable prices, car² and energy prices, and some significant tax increases on tobacco. These factors can explain as much as 1.2 rate points out of the total of 1.4%.

Assessments at the most detailed level of the remaining HICP components highlight some unusual price changes - and therefore the possibility of changeover inflation - mainly for a range of services such as those provided by restaurants and cafes, some health-related services and some small shops and repair services.

Comparison with non euro-zone countries

Going a step further Eurostat has analysed price developments in non euro-zone countries, i.e. Denmark, the United Kingdom, Sweden, and, to some extent, Switzerland, in order to better assess the contribution of "unusual" price increases to inflation rates during the first half of 2002.

Table 3 shows the 6-month inflation rates ending in June 2002 for some relevant expenditure groups

²

The May estimate included a contribution from car prices of 0.02 rate points. However it is unlikely that the increases in car prices were the result of euro changeover effects.

Table 3		DK	S	UK	CH ^{*)}	Euro-zone
00	All-items	1.6	0.9	0.5	0.5	1.4
0111	Bread and cereals	1.4	1.3	0.3	0.8	1.6
0112	Meat	-0.8	0.6	0.0	1.6	-0.4
0116	Fruit	3.0	5.6	-0.6	2.8	5.3
0117	Vegetables	10.1	10.3	4.1	9.2	12.9
0411_2	Rents	1.9	1.6	1.3	0.5	1.0
06	Health	-3.0	2.4	2.1	0.3	1.5
0933	Gardens and flowers	3.7	3.6	0.4	2.0	5.0
1111	Restaurants and cafés	1.0	2.5	1.5	1.9	3.1
1211	Hair dressing	2.7	1.8	2.4	1.4	2.8
1212_3	Electric appliances	1.0	1.8	-1.1	1.0	0.8

*) National CPI, not strictly comparable with HICP

Table 4 shows that if we take price developments in non euro-zone countries into account using statistical techniques, the impact of “unusual” price increases might be reduced from 0.20% to 0.14%.

This comparison is subject to some uncertainty as many other factors which cannot be taken into account may affect such an analysis. The results summarized in Table 4 below are no more than tentative adjustments to initial estimates.

Table 4: Tentative adjustments to initial estimates (in rate points)

COICOP-group	Source	Contribution Dec01 – Jan02	Contribution Q4/01 – Q1/02	Contribution 6-month rate ending June 2002
	Information from non euro-zone countries	-0.02	-0.03	-0.06
	Total “unusual” price increases	+0.14	+0.13	+0.14

Euro-zone sub-indices showing the highest 6-month rates in the period ending in June 2002 since 1995

Table 5 shows euro-zone sub-indices with the highest monthly, quarterly, or six-month rate of change since the HICP began in 1995 for, respectively, January 2002, Q1/02, or ending in June 2002. It also shows their impact, i.e., how much the HICP all-items rate is higher or lower as a consequence of including this item group in the HICP.

Table 5: Euro-zone sub-indices showing record rates of change for January 2002, Q1/02 or in the first six months of 2002 in descending order of impact on six-month all-items inflation

COICOP-group	Weight per 1000	Dec01-Jan02		Q4/01-Q1/02		6-month rate ending in June 2002	
		Rate in % (if highest ever)	Impact in rate points on monthly rate	Rate in % (if highest ever)	Impact in rate points on quarterly rate	Rate in % (if highest ever)	Impact in rate points on 6-month rate
0117 Vegetables	15.7	13.6	0.21	14.3	0.21	12.9	0.18
0220 Tobacco	22.8	3.3	0.07	3.5	0.06	4.4	0.07
1111 Restaurants, cafés and the like	67.0	1.2	0.06	2.0	0.09	3.1	0.11
0451 Electricity	-	-	-	-	-	1.8	0.01
0621/3 Medical and paramedical services ^{°)}	9.5	0.9	0.00	1.6	0.01	2.6	0.01
0711 Cars	-	-	-	-	-	1.2	-0.01
1253 Insurance connected with health	4.5	-	-	3.1	0.01	3.4	0.01
1240 Social protection ^{°°)}	8.7	1.1	0.01	1.3	0.00	1.8	0.00
0630 Hospital services ^{°)}	6.5	1.4	0.01	1.6	0.01	2.2	0.01
0933 Gardens, plants, and flowers	6.4			5.0	0.03	5.0	0.02
1255 Other insurance	2.4	2.0	0.00	2.6	0.00	2.9	0.00
1211 Hairdressing salons and personal grooming establishments	12.0	1.1	0.01	2.1	0.02	2.8	0.02
0622 Dental services ^{°)}	7.2	1.3	0.01	1.1	0.00	1.3	0.00
0612/3Other medical products, therapeutic appliances and equipment ^{°)}	4.0	0.5	0.00	0.7	0.00	1.2	0.00
0923 Maintenance and repair of other major durables for recreation and culture	0.0	4.2	0.00	4.3	0.00	5.3	0.00
0311 Clothing materials	-	-	-	-	-	2.7	0.00
0952 Newspapers and periodicals	-	-	-	-	-	2.5	0.01
0723 Maintenance and repair of personal transport equipment	23.7	0.7	0.01	1.5	0.02	2.4	0.02
0314 Cleaning, repair and hire of clothing	1.8	0.8	0.00	1.5	0.00	2.3	0.00
0513 Repair of furniture, furnishings and floor coverings	-	-	-	-	-	2.2	0.00
10X0 Education	-	-	-	-	-	2.1	0.01
0432 Services for the maintenance and repair of the dwelling	9.6	0.6	0.00	1.3	0.00	1.9	0.01
1112 Canteens	-	-	-	-	-	1.9	0.00
0321_2 Shoes and other footwear	-	-	-	-	-	1.8	0.01
0724 Other services in respect of personal transport equipment	10.3	-	-	1.1	0.00	1.5	0.00
1231 Jewellery, clocks and watches	-	-	-	-	-	1.5	0.00
0934_5 Pets and related products	-	-	-	-	-	1.3	0.00
0511 Furniture and furnishings	-	-	-	-	-	1.2	0.00
0721 Spare parts and accessories for cars	-	-	-	-	-	0.9	0.00
0551/2 Major tools and equipment and small tools and miscellaneous accessories	4.6	0.1	0.00	0.4	0.00	0.8	0.00
0914 Recording media	4.1	-	-	0.4	0.00	0.5	0.00
0820 communication ^{°°°)}	-	-	-	-	-	-1.5	-0.01
1252 Insurance connected with the dwelling	2.3	1.1	0.00	1.3	0.00	-	-
0735 Combined passenger transport	5.7	1.4	0.01	-	-	-	-
0915 Repair of audio-visual, photographic, and information processing equipment	0.9	0.9	0.00	-	-	-	-

^{°)} Since January 2000

^{°°)} Since January 2001

^{°°°)} Since January 1996

The high number of sub-indices included in Table 5, and in many cases their persistent recording of highest ever price increases, supports consumers' perceptions - that they faced significant price increases since the euro changeover in January 2002 for some types of goods and services. The item groups with record monthly rates in January 2002 are to a large extent the same as those item groups with record rates for the 1st quarter of 2002 and for the six-month rates ending in June 2002.

Consumers form their own views of inflation by comparing the prices they pay over time for the same goods and services. They usually focus in the short term on their most frequent and most important purchases. With the euro changeover experience still fresh, consumers' opinions on euro-changeover inflation can therefore be expected to depend heavily on their experience of the prices for the low-value goods and services they buy frequently.

So where the prices of some purchases in cafes and restaurants have increased more than usually, consumers are well aware of that. What is not so easy for the individual consumer to take into account is that there have been price changes, both up and down, for other (less frequent) purchases. For every increase in the price of a cup of coffee, for instance, which may well be due to the euro-changeover, it would take only a small decrease in the price of computers or refrigerators to balance this out in the HICP. It is only by looking at comprehensive price statistics that the full picture may be seen.

In conclusion, the analyses presented here show that although perceptible the changeover effect has not been driving consumer price inflation as measured by the all-items index during the first half of 2002.