

January 2002

## Euro-zone annual inflation up to 2.7%

Euro changeover effect likely to be within the 0.0% to 0.16% range  
EU15 up to 2.5%

**Euro-zone**<sup>1</sup> annual inflation rose from a revised 2.0% in December 2001 to 2.7% in January 2002, **Eurostat – the Statistical Office of the European Communities in Luxembourg** – reports today. A year earlier the rate was 2.3%. The month-on-month change in the HICP from December 2001 to January 2002 was 0.5%. The euro changeover effect on the month-on-month increase in the euro-zone HICP between December 2001 and January 2002 is likely to fall, according to initial Eurostat estimates, within the range 0.0% to 0.16%. Non-euro factors – in particular bad weather resulting in very large increases in vegetable prices and some significant tax increases on tobacco - can, according to initial analyses, explain as much as 0.34% of the difference (see Annex).

**EU15** annual inflation rose from 1.9% in December 2001 to 2.5% in January 2002. A year earlier the rate was 2.1%.

**EEA** annual inflation rose to 2.5% in January 2002.

### Inflation in Member States

In January<sup>2</sup>, highest annual rates were in the **Netherlands** (4.9%), **Greece** (4.8%) and **Portugal** (3.7%); lowest rates were in the **United Kingdom** (1.6%), **Austria** (2.0%) and **Luxembourg** (2.1%).

Compared with December 2001, annual inflation fell in three Member States and rose in eleven. Compared with January 2001, the biggest relative falls were in **Luxembourg** (2.9% to 2.1%), **Portugal** (4.4% to 3.7%) and **Austria** (2.2% to 2.0%) ; the biggest relative rises were in the **United Kingdom** (0.9% to 1.6%), **France** (1.4% to 2.4%) and **Sweden** (1.6% to 2.9%).

Lowest 12-month averages<sup>3</sup> up to January 2002 were in the **United Kingdom** (1.3%), **France** (1.9%), **Denmark, Austria, Italy** and **Luxembourg** (2.3% each); highest were in the **Netherlands** (5.1%), **Portugal** (4.3%) and **Greece** (3.8%).

### USA and Switzerland

Annual inflation rose from 0.3 % to 0.5% in **Switzerland** and fell from 1.6% to 1.1% in the **USA**. These indices are not strictly comparable with **EU** harmonized indices.

#### Annual inflation (%) in January 2002 – in ascending order

UK	A	L	D	F	I	EU15	DK	B	Euro-zone	FIN	S	E	P	GR	NL
1.6	2.0p	2.1	2.3	2.4p	2.4p	2.5p	2.5	2.6	2.7p	2.9	2.9	3.1p	3.7	4.8	4.9p

## Inflation rates in %, measured by HICPs

Table 1

	Annual rates					12 Month	Monthly
						Average	rates
	Jan 02 Jan 01	Dec 01 Dec 00	Nov 01 Nov 00	Oct 01 Oct 00	Jan 01 Jan 00	Rates <sup>3</sup> Jan 01-02 Jan 00-01	Jan 02 Dec 01
Belgium	2.6	2.0	1.8	1.9	2.7	2.4	-0.9
Germany	2.3	1.5	1.5	2.0	2.2	2.4	1.0
Greece	4.8	3.5	2.9	3.2	3.2	3.8	-0.6
Spain <sup>4</sup>	3.1p	3.0rp	3.0rp	3.1rp	3.2rp*)	3.2p	-0.2p
France	2.4p	1.4	1.3	1.8	1.4	1.9p	0.5p
Ireland <sup>2</sup>	n.a.	4.4	3.4	3.8	3.9	n.a.	n.a.
Italy <sup>4</sup>	2.4p	2.2rp	2.2rp	2.4rp	2.4rp*)	2.3p	0.0p
Luxembourg	2.1	0.9	1.4	1.7	2.9	2.3	-0.7
Netherlands	4.9p	5.1	4.8	5.0	4.6	5.1p	1.1p
Austria	2.0p	1.8	1.9	2.3	2.2	2.3p	0.2p
Portugal	3.7	3.9	4.1	4.2	4.4	4.3	0.1
Finland	2.9	2.3	2.1	2.4	2.9	2.7	0.5
<b>Euro-zone (MUICP)<sup>4</sup></b>	<b>2.7p</b>	<b>2.0rp</b>	<b>2.1p</b>	<b>2.4p</b>	<b>2.3rp</b>	<b>2.6p</b>	<b>0.5p</b>
Denmark	2.5	2.1	1.7	2.0	2.3	2.3	0.2
Sweden	2.9	3.2	2.9	2.9	1.6	2.8	-0.6
United Kingdom	1.6	1.0	0.8	1.2	0.9	1.3	-0.4
<b>EU15 (EICP)<sup>4</sup></b>	<b>2.5p</b>	<b>1.9rp</b>	<b>1.8p</b>	<b>2.2p</b>	<b>2.1rp</b>	<b>2.4p</b>	<b>0.3p</b>
Iceland	9.8	9.1	8.6	8.3	3.4	7.1	0.9
Norway	0.9	1.6	1.3	1.8	3.1	2.5	0.1
<b>EEA (EEAICP)</b>	<b>2.5p</b>	<b>1.9rp</b>	<b>1.8p</b>	<b>2.2p</b>	<b>2.1rp</b>	<b>2.4p</b>	<b>0.3p</b>

\*) The rates for Italy and Spain were influenced by a one-off effect almost entirely due to inclusion of sales prices in the index (see also footnote 4). The rate for January 2001 without sales prices would have been 2.7% for Italy and 3.8% for Spain.

Source: Eurostat

n.a. = not available

p = provisional

r = revised

Table 2

Euro-zone	Weight used in 2002	Annual rates					12 Month	Monthly
							Average	rates
		Jan 02 Jan 01	Dec 01 Dec 00	Nov 01 Nov 00	Oct 01 Oct 00	Jan 01 Jan 00	Rates <sup>3</sup> Jan 01-02 Jan 00-01	Jan 02 Dec 01
<b>MUICP</b>								
00 All-items	1000p	2.7p	2.0rp	2.1p	2.4p	2.3rp	2.6p	0.5p
01 Food	164.1p	5.8p	5.1p	5.1p	5.7rp	3.1rp	5.3p	1.8p
02 Alcohol and tobacco	39.1p	4.4p	3.0p	3.0p	3.1p	1.7p	3.0p	2.1p
03 Clothing	79.6p	2.2p	2.3rp	2.3rp	1.8rp	-1.0rp	0.6p	-4.3p
04 Housing	151.1p	1.3p	1.0p	1.2p	1.7p	4.9p	3.0p	0.5p
05 Household equipment	79.5p	2.0p	2.2p	2.1p	2.0rp	1.5p	2.0p	-0.1p
06 Health	39.2p	1.8p	1.0p	1.2p	1.2p	1.3rp	1.2p	0.7p
07 Transport	152.4p	0.8p	-0.5p	-1.3rp	-0.3p	2.3rp	1.2p	0.5p
08 Communications	25.0p	-1.4p	-1.6rp	-1.9p	-1.8p	-4.6rp	-2.6p	0.1p
09 Recreation and culture	94.4p	1.7p	1.8p	1.7p	2.0p	1.8rp	1.8p	0.2p
10 Education	9.3p	4.0p	3.7p	3.6p	3.7p	3.2rp	3.3p	0.5p
11 Hotels and restaurants	89.0p	4.2p	3.6rp	3.6p	3.5p	3.1rp	3.4p	1.2p
12 Miscellaneous	77.2p	3.4p	3.4p	3.3p	3.3p	2.3p	3.0p	0.7p
All-items excl. energy	912.7p	3.1p	2.8p	2.8rp	2.9p	1.8rp	2.6p	0.3p
-excl. energy, FoodAlcTob**)	709.5p	2.4p	2.3p	2.2p	2.2p	1.5rp	2.0p	-0.1p
-excl. tobacco	977.6p	2.6p	2.1p	2.0rp	2.3p	2.4rp	2.5p	0.3p
Energy	87.3p	-1.7p	-4.5p	-5.0p	-2.7p	7.9rp	2.0p	1.2p
FoodAlcTob**)	203.3p	5.6p	4.7p	4.6rp	5.2p	2.8rp	4.8p	1.8p

Source: Eurostat \*\*\*) FoodAlcTob = Food, alcohol and tobacco

p = provisional

r = revised

## 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 rate<sup>3</sup> 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-zone<sup>5</sup>.

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 information<sup>6</sup> 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
February 2002	28 February 2002	18 March 2002
March 2002	27 March or 2 April 2002	17 April 2002
April 2002	30 April 2002	16 May 2002

- 1) The MUICP flash estimate for January 2002, published on 1 February 2002, was 2.5%. Although a major structural change such as the introduction of the euro was always likely to affect the performance of the flash estimation procedure, a retrospective analysis of the January flash estimate suggests that the impact of increased vegetable prices was more significant.
- 2) Data for Ireland for January 2002 will be integrated in the Eurostat databases as soon as they are available for publication.
- 3) Measure used to determine price stability in Convergence reports of 1998 and 2000 by the Commission to the Council.
- 4) As a result of the introduction of sales prices into the HICP, and in order to achieve annual rates of change on a comparable basis, indices for Italy and Spain have been revised back to January 2001 in accordance with the HICP Regulation on price reductions. These revisions have resulted in a revision of the MUICP in December 2001, published on 22 January 2002, from 2.1% to 2.0%, and of the EICP from 2.0% to 1.9%. In agreement with INE, Spanish indices have been re-scaled to reflect the usual chain-link in December 2000 due to the introduction of a new basket with the index for January 2001.
- 5) See ECB press release, 13 October 1998.
- 6) 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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## HICP country weights for 2002 (provisional)

	<b>MUICP</b>	<b>EICP</b>	<b>EEAICP</b>
<b>Belgium</b>	34.00		
<b>Germany</b>	305.79		
<b>Greece</b>	24.70		
<b>Spain</b>	103.51		
<b>France</b>	204.26		
<b>Ireland</b>	12.55		
<b>Italy</b>	192.32		
<b>Luxembourg</b>	2.56		
<b>Netherlands</b>	52.03		
<b>Austria</b>	31.87		
<b>Portugal</b>	20.46		
<b>Finland</b>	15.96		
<b>Euro-zone (MUICP)</b>	<b>1000.00<sup>*)</sup></b>	804.22	795.01
<b>Denmark</b>		13.74	13.59
<b>Sweden</b>		18.43	18.21
<b>United Kingdom</b>		163.61	161.73
<b>EU15 (EICP)</b>		<b>1000.00<sup>*)</sup></b>	
<b>Iceland</b>			0.85
<b>Norway</b>			10.61
<b>EEA (EEAICP)</b>			<b>1000.00<sup>*)</sup></b>

\*) Due to rounding effects, the weights may not add up exactly to 1000

## **Euro changeover effect likely to be within the 0.0% to 0.16% range**

### **The euro-zone HICP for January 2002**

*The euro-zone annual rate for January 2002 is 2.7%, up from a revised 2.0% in December 2001.*

*The month-on-month change in the euro-zone HICP from December 2001 to January 2002 was 0.5%. The euro changeover effect on the month-on-month increase in the euro-zone HICP between December 2001 and January 2002 most likely falls within the range of 0.0% to 0.16%. Non-euro factors – in particular bad weather resulting in very large increases in vegetable prices and some significant tax increases on tobacco - can, according to initial analyses, explain as much as 0.34% of the change. The remaining price increase is thus estimated at most at 0.16%.*

*Assessments of the HICP components for January 2002 at the most detailed level highlight unusual price increases - 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 repair services.*

### **Euro-changeover inflation**

In practice it is not possible for price index compilers to put a precise figure on the impact of the changeover. There is no way to say 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.

Eurostat's first preliminary analysis of the euro changeover effects, has focused on the month-to-month changes between December 2001 and January 2002. The approach (in the very limited time available since the national data were made available to Eurostat) has been to seek to identify regular and special non-euro factors affecting the January 2002 HICP, then to assess the sources of the remaining increase in the all-items HICP in order to identify as a remainder "grey zone", which can be the basis of an estimate of the 'most likely range' for the impact of the euro changeover on prices.

In more detail three approaches have been followed

1. Eurostat has used statistical techniques to identify those HICP sub-indices showing a price change for January 2002 which is outside what the past data would predict.
2. To complement the first analysis, Eurostat has analysed the detailed HICP sub-indices to identify those products showing for January 2002 the highest monthly price increases since the beginning of the HICP series in 1995.
3. Eurostat has aimed to build on the first two analyses by comparing, for the products thus highlighted, the price increases within the euro-zone with those seen outside the euro-zone.

## A more detailed analysis of the HICP in January 2002

Item groups where for the actual results for January 2002 fall outside the extrapolated results are shown in Table 1.

Table 1: Decomposition of euro-zone month-to-month inflation in January 2002

Source	Contribution
Restaurants, cafes, and the like	+0.07
Rents	+0.02
Gardens, plants, and flowers	+0.01
Meat	-0.01
Remaining items	+0.07
Total "unusual" price increases	+0.16

"Contribution" is the weighted difference between the extrapolated and the actual value for each item group, measured in percentage points from December 2001 to January 2002. The expenditure groups listed above show the sub-indices making the most important contributions. The group "remaining items" includes indices with smaller individual contributions but which add up all together to 0.07 percentage points. The most important among them are the following:

0111	Bread and cereals
0314	Cleaning, repair and hire of clothing
0452	Gas
0455	Heat energy
0520	Household textiles
0531_2	Major household appliances
0540	Glassware, tableware and household utensils
0712_34	Motor cycles, bicycles and animal drawn vehicles
0723	Maintenance and repair of personal transport equipment
0732	Passenger transport by road
0733	Passenger transport by air
0734	Passenger transport by sea and inland waterway
082_30	Telephone and telefax equipment and telephone and telefax services
0923	Maintenance and repair of other major durables for recreation and culture
0942	Cultural services
10X0	Pre-primary and primary, secondary, post-secondary non-tertiary, tertiary education, and education not definable by level
1112	Canteens
1120	Accommodation services
1211	Hairdressing salons and personal grooming establishments
1252	Insurance connected with the dwelling
1262	Other financial services n.e.c.

The euro changeover effect on the month-on-month increase in the euro-zone HICP between December 2001 and January 2002 therefore most likely falls within the range 0.0% to 0.16%.

## Euro-zone sub-indices showing the highest increases in January 2002 since 1995

Table 2 shows the 18 euro-zone sub-indices which, for January 2002, show the highest monthly rate of change since the HICP began in 1995. It also shows the impact of each on the HICP all-items index.

Table 2: Euro-zone sub-indices showing record rates of change for January 2002 in descending order of impact on monthly all-items inflation

	Weight per 1000	Jan-02 Dec-01 in %	Impact in rate points	Jan-02 Jan-01 in %	Impact in rate points
Vegetables	15.7	13.6	0.21	19.1	0.26
Tobacco	22.8	3.3	0.07	6.6	0.09
Restaurants, cafés and the like	67.0	1.2	0.06	4.2	0.11
Insurance connected with health	4.5	2.9	0.01	4.6	0.01
Hairdressing salons and personal grooming establishments	12.0	1.1	0.01	3.9	0.01
Maintenance and repair of personal transport equipment	23.7	0.7	0.01	3.9	0.03
Dental services	7.2	1.3	0.01	0.0	-0.02
Hospital services	6.5	1.3	0.01	4.6	0.01
Social protection	8.7	1.1	0.01	3.5	0.01
Combined passenger transport	5.7	1.4	0.01	3.5	0.00
Medical and paramedical services	9.5	0.9	0.00	3.2	0.01
Other insurance	2.4	2.0	0.00	2.5	0.00
Services for the maintenance and repair of the dwelling	9.6	0.6	0.00	2.8	0.00
Insurance connected with the dwelling	2.3	1.1	0.00	2.1	0.00
Cleaning, repair and hire of clothing	1.8	0.8	0.00	3.0	0.00
Other medical products, therapeutic appliances and equipment	4.0	0.6	0.00	2.3	0.00
Repair of audio-visual, photographic and information processing equipment	0.9	0.9	0.00	3.4	0.00
Maintenance and repair of other major durables for recreation and culture	0.0	4.2	0.00	7.1	0.00

The above analysis seems to confirm consumers' perceptions - that they faced significant price increases in January 2002 for some types of goods and services - are well-founded. However the impact of these price increases at the all-items index has not been sufficiently large to influence necessarily all-items inflation in a marked way.

Consumers form their own views of inflation by comparing the prices they pay over time for the same goods. 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 small goods and services they buy repeatedly.

So where the prices of some purchases in cafes and restaurants have increased by more than usual in January, 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.

#### Regular and special factors influencing the HICP in Jan 2002

*Weather:* The unusually bad weather seen in much of Europe earlier this winter led to exceptionally large price increase for vegetables in January – both inside and beyond the euro-zone. Vegetable prices are the single biggest reason for the increase in the euro-zone HICP in January 2002.

*Tariffs and taxes:* Many tariffs change regularly in January each year. Examples can be found in the health sector, post and transportation services and services related to housing. In addition tax changes on alcohol and tobacco and energy commonly take effect from January. In January 2002, tax changes for tobacco were particularly important.

*Treatment of sales prices:* The inclusion of sales prices is the correct way to measure changes in the actual prices faced by consumers either on a monthly or an annual basis and is of paramount importance in order to reflect appropriately changeover effects.

At the level of the euro-zone taken as a whole, sales price reductions in January 2002 seem to have been comparable to those seen in January 2001.

Implementation of the Regulation on the treatment of sales prices in the HICP should be complete now that Spain and Italy have introduced actual sales prices into their HICPs for the first time<sup>1</sup>. As a result of the way in which this has been implemented, this should not affect annual rates of change during 2002 or beyond. There have been some revisions to the results for 2001 as a consequence.

*Financial services:* The HICP extended its coverage of financial services as from January 2002. Although the weight of these services within the euro-zone HICP increased as a result from 3.6 to 4.7 parts per thousand, the monthly price increases in January 2002 were below those in January 2001.

*Weights:* In January 2002, as happens each January, the HICP took on the latest expenditure data provided by National Statistical Institutes into its internal weights.

#### Euro-zone and non-euro-zone inflation in January 2002

It is possible to compare the month-on-month changes in HICP data for the euro-zone in January 2002 with the equivalent data for the three EU non-euro zone countries. For the most prominent series identified above, the comparisons show the following:

*Vegetables:* The euro-zone HICP for vegetables increased by 19.1% in the year to January 2002, and by 13.6% between December 2001 and January 2002. The average increases for non-euro-zone Member States<sup>2</sup> were, respectively, 16.5% and 10.9%.

*Tobacco:* The euro-zone HICP for tobacco increased by 6.6% in the year to January 2002, and by 3.3% between December 2001 and January 2002. The average increases for non-euro-zone Member States<sup>4</sup> were, respectively, 3.1% and 0.3%.

*Restaurants and cafes:* The euro-zone HICP for restaurants and cafes increased by 4.2% in the year to January 2002, and by 1.2% between December 2001 and January 2002. The average increases for non-euro-zone Member States<sup>4</sup> were, respectively, 3.5% and 0.1%. The comparison of month-on-month changes to January 2002 reinforces the impression that these are probably related to euro-changeover inflation.

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<sup>1</sup> Albeit the resulting HICP data for both countries is provisional at this stage.

<sup>2</sup> Unweighted HICP averages of Denmark, Sweden and the United Kingdom.