



HICP COMPLIANCE MONITORING

UPDATED INFORMATION NOTE ON THE HARMONIZED INDICES OF CONSUMER PRICES FOR GERMANY

June 2010

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Germany in autumn 2008 and issued a report in August 2009. The statistical practices used to compile the HICP for Germany have been reviewed against HICP methodology and other guidelines and good practices in the field of consumer price indices.

This updated report takes account of publicly available information on the CPI and HICP for Germany, and additional information collected by Eurostat prior to and during a mission to the Statistical Office of the State of Hesse held on 2 December 2009.

I. OVERALL ASSESSMENT

Following the visit to the Statistical Office of the State of Hesse in December 2009, Eurostat's overall assessment remains as stated in [August 2009](#).

The focus of Eurostat's follow-up visit at decentralized level was on those issues where the price collection takes place at 'Länder' level, such as garments, health and accommodation services.

The meeting was attended also by the Statistical Offices of Bavaria, Mecklenburg-Vorpommern, Saxony-Anhalt and The Free State of Thuringia.

DESTATIS has launched a large modernisation process in order to improve the German HICP and achieved important progress in recent years in many fields, especially quality adjustment and sampling. The visit confirmed that also at the regional level, the price statistics production follows high technical standards.

Eurostat supports modernisation efforts and encourages DESTATIS and the Länder offices to develop the consumption segments approach and widen its use further in as expeditious a manner as possible.

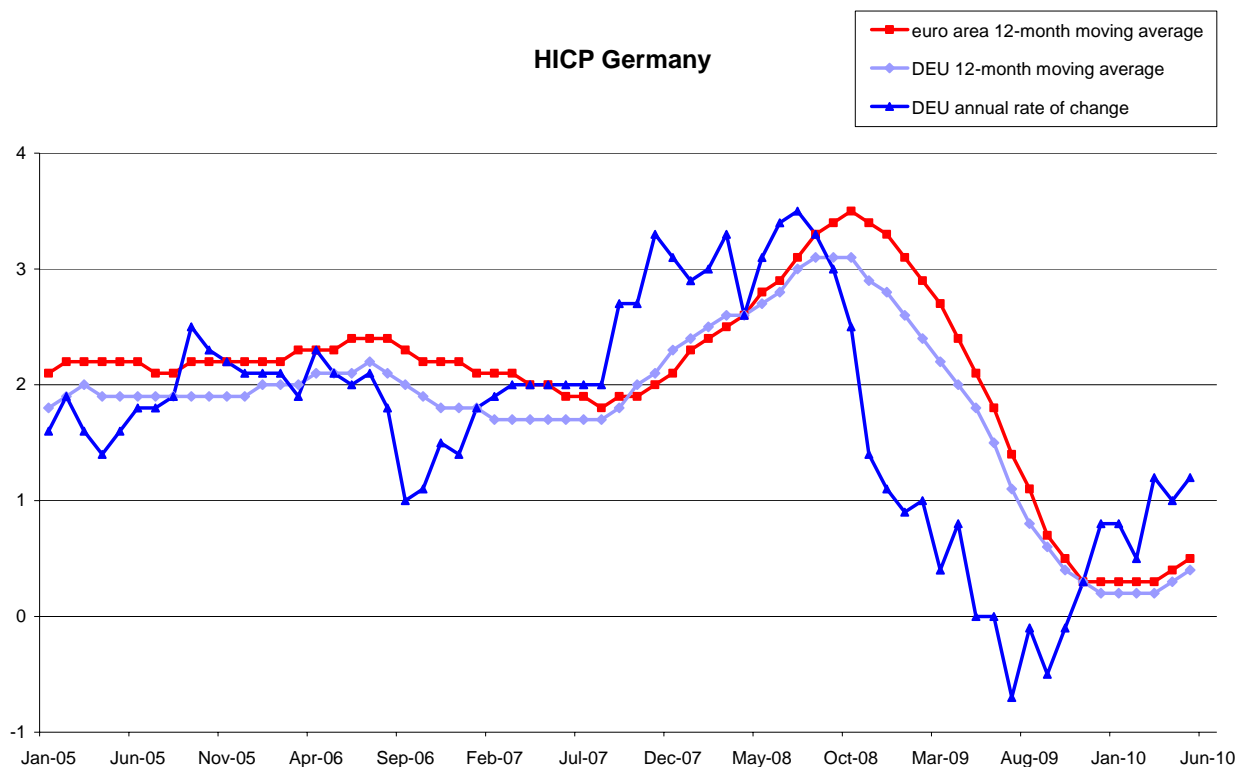
The compliance assessed in this report concerns both the centralized part of the data collection and processing which is fully controlled by DESTATIS as well as the decentralized part which is carried out at 'Länder' level. Nevertheless, it has been noted that the treatment of some issues at decentralized level follow instructions issued at the central level.

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 (see Section III). A targeted follow up of these cases will be carried out by DESTATIS and Eurostat.

II. RECENT PRICE DEVELOPMENTS

In October 2009, the German annual inflation rate was -0.1%, equal to the euro area average. Germany's 12-month moving average rate for the year to October 2009 was 0.4%, below the 0.5% figure for the euro area. The chart shows the recent development in the 12-month moving average rate of change and the annual rate of change for Germany together with the euro area 12-month moving rate.

The most significant downward impacts on the HICP in the year to October 2009 came from fuels for transport and heating oil. The most significant upward impacts came mainly from package holidays and electricity.



III. FINDINGS AND RECOMMENDATIONS

Eurostat confirmed that 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 2009 referred to the year 2005 and were price-updated to December 2008.

DESTATIS makes specific quality adjustments for extended guarantee periods in a systematic way. Eurostat reserves its position on this, pending follow-up with other Member States.

It is to be noted that the same federal consumption expenditure pattern is applied to all Länder indices and the most representative indices are an average of the federal consumption rather than of expenditure of the Länder.

In 2008, DESTATIS and the regional statistical offices started using a new integrated IT system ('Verbundsystem') for compiling and treating prices. This system will be developed further in the coming years and allow efficiency gains and facilitate improvements to several aspects in the index compilation.

When the system was introduced in 2008, explicit outlet weightings were implemented. In January 2010, the regional sampling strategy moved from a municipal oriented to a region-based system: the regional samples have been expanded whereby locally collected prices are collected in each of the 97 small regions.

Eurostat supports the efforts of the Statistical Office of the State of Hesse to having taken private education into the sample from January 2010 onwards.

Eurostat also acknowledges that the traffic taxes ('KFZ-Steuer' and 'Zulassungsgebühr') have been introduced in the HICP from December 2009 onwards.

As a result of the visit to the Statistical Office of the State of Hesse, Eurostat recommends that:

- as regards newly significant goods and services, DESTATIS and the Länder offices devise a more systematic approach in order to be correctly represented in the HICP.
- for some expenditure groups, DESTATIS review and monitor the representativeness of the present sample and its elementary aggregates, for instance such as vocational training courses and accommodation services.
- as regards internet shopping and newly significant outlets, analysis should be carried out to provide evidence that both of them are correctly represented in the HICP.
- DESTATIS and the Länder offices should continue to cooperate with a view to improving harmonization, most particularly on selection and training of price collectors and the development of the supporting documentation thereof.

The outstanding Eurostat recommendations from August 2009 remain in place, namely that:

- for telecommunications, where high quality methods have been introduced by DESTATIS, the representativeness of estimates with respect to tariff elements ('Verbrauchselemente') be verified using a second (provider independent) data source. Resulting changes should be introduced in due course in the HICP.
- for rents, Eurostat supports DESTATIS' redesign of regional sampling with a view to correctly representing both old and new rental contracts. Eurostat acknowledges that DESTATIS introduced the construction year of an apartment as a parameter into the index in January 2010.
- the system for updating weightings be reviewed. Eurostat supports the plans of DESTATIS for improvement towards more up-to-date weightings.
- since the sample used at present for the service component of insurances has some limitations, it is recommended that both old and new contracts be reflected in the HICP.
- in the case of education, further analysis be carried out and significance be monitored to establish whether private universities and private schools are correctly reflected in the HICP.
- the full amount of fees for services extending over several months be included in the HICP in the month when the service can commence. This concerns in particular university fees and seasonal tickets for sports and cultural events.
- the frequency of collecting prices for services for the maintenance and repair of the dwelling be changed from quarterly to monthly.
- while Eurostat acknowledges that there may have been good reasons for using list prices in the calculation of an index for new cars, DESTATIS should review on a regular basis that the development of list prices accurately reflects the development of the actual transaction prices.