

The Harmonised Index of Consumer Prices in recent years

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Consumer price indices measure changes over time in the prices of goods and services that households buy. They are widely used for monetary policy purposes; indexing commercial contracts, wages, social protection benefits and financial instruments; deflating national accounts aggregates; and, more generally, expressing monetary values in real terms. In the European Union (EU), the harmonised index of consumer prices (HICP) has been developed to provide a high-quality, comparable measure of consumer price inflation. It serves two main purposes, as follows.

- ▶ The HICP is used to measure price stability in the European Central Bank's (ECB) monetary policy strategy. Maintaining price stability is the primary objective of both the ECB and the national central banks of the euro area, as set out in the Treaty on the Functioning of the European Union. Following a thorough evaluation of its monetary policy strategy in 2021, the ECB Governing Council specified that 'price stability is best maintained by aiming for a two per cent inflation target over the medium term'².
- ▶ The HICP serves to assess price convergence with a view to a country joining the monetary union. In addition to these specific EU uses, it may be used, like other consumer price indices, for economic analysis and for indexing contract prices.

The HICP is designed to measure the pure price change of a fixed basket of goods and services falling within the scope of household

final monetary consumption expenditure on the economic territory of a country. While national statistical institutes (NSIs) produce national HICPs, Eurostat produces country-group aggregates (e.g., euro area and EU aggregates). The production of the HICP, its methodology, and the data to be sent to Eurostat are governed by EU law³. Data users interested in the concepts, methodology and country practices underlying the HICP can find comprehensive material and information in Eurostat's HICP Manual, which is currently being revised to incorporate changes in legislation and latest developments⁴. The revised version of the manual is expected to be published early in 2024.

The HICP has been produced and published since March 1997. Throughout its long history, the HICP has been continuously reviewed with the aim to further improve its quality and comparability across both time and Member States. The recent years, including the COVID-19 crisis, high energy prices and inflation rates, and the advancing digitalisation of European economies, have all affected price measurement in the HICP.

COVID-19 crisis

The COVID-19 outbreak led governments to impose several measures, such as restrictions in the movement of people and the closure of outlets, which had an impact on household consumption and collection of the prices needed to compile the HICP.

In a number of countries, field price collection became impossible, either because certain goods and services were unavailable or because shops were closed. Member States were encouraged to replace field price

¹ Eurostat, Unit C4 - Price statistics, purchasing power parities, housing statistics; contact: estat-price-statistics@ec.europa.eu.

² See ECB (2021), 'An overview of the ECB's monetary policy strategy', published in July 2021.

³ See Regulation (EU) 2016/792 and Commission Implementing Regulation (EU) 2020/1148.

⁴ See Eurostat (2018), 'Harmonised Index of Consumer Prices (HICP) - Methodological Manual', published on 9 January 2018.

collection by online and other sources of information, such as transaction data, where possible. For goods and services that were no longer offered to consumers, prices were to be replaced by imputations in the HICP. Eurostat provided guidance to NSIs on the replacement and imputation techniques to be used with the aim to have, to the maximum extent possible, a consistent approach across Member States⁵.

To provide users with information on reliability, sub-indices that were based on a significant number of imputed prices were flagged with the ‘u’ flag (low reliability). Based on this reporting, Eurostat estimated the share of consumption expenditure in the all-items basket, which was imputed due to the COVID-19 crisis. Figure 1 plots the development of imputation shares between April 2020 and August 2021 for the EU all-items HICP⁶.

April and May 2020 were the two months most heavily affected by price imputations due to the COVID-19 crisis. New lockdowns in the winter months of 2021 led to an increase in imputations again, but they did not reach the

levels seen at the beginning of the COVID-19 pandemic. Generally, the index for services was the most affected among the main aggregates in terms of imputation shares. Among groups under the European classification of individual consumption according to purpose, indices for package holidays, recreational and cultural services, catering services, and accommodation services were particularly affected by imputations in Member States.

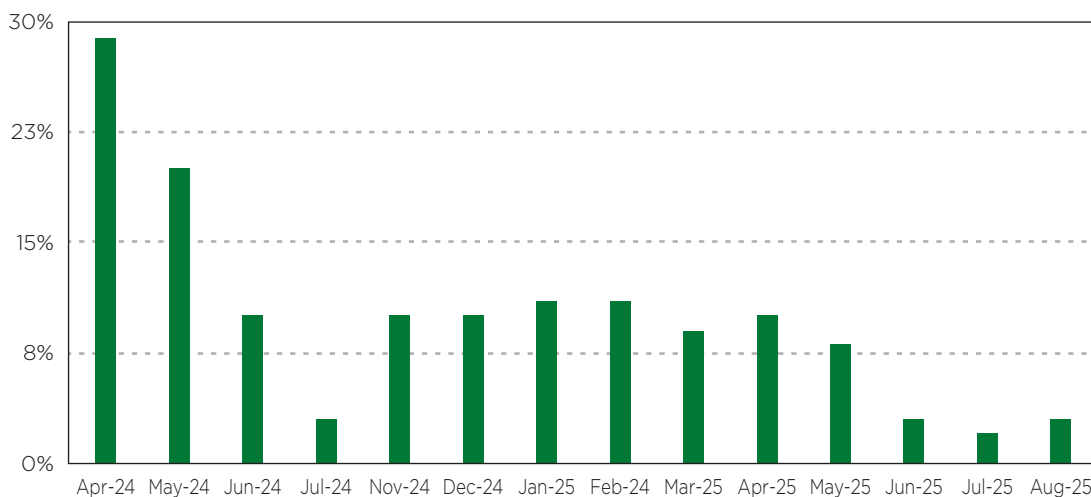
The COVID-19 crisis not only affected the price collection of NSIs, but also the consumption expenditure of households, which are used in the HICP compilation as weights of goods and services. Following standard practice, the HICP weights used in 2020 were updated at the beginning of the year and kept constant throughout the year. Consequently, they reflected the household consumption expenditure patterns of the previous year. As such, the weights used in the 2020 HICP compilation do not reflect any impact from the COVID-19 crisis.

To incorporate the strong shifts in consumption expenditure caused by the COVID-19 crisis, Eurostat provided guidance on how the HICP weights for 2021 should be derived⁷. Following this, weights were estimated from preliminary

5 See Eurostat (2020), ‘Guidance on the Compilation of the HICP in the context of the COVID-19 crisis’, published on 3 April 2020.
6 No reporting and thus no estimation of imputation shares was undertaken between August and October 2020. The imputation shares can be assumed to be low in these months.

7 See Eurostat (2020), ‘Guidance on the compilation of HICP weights in case of large changes in consumer expenditures’, published on 3 December 2020.

FIGURE 1. IMPUTATION SHARES FOR THE EU ALL-ITEMS HICP (IN %)



Source: Eurostat.

national accounts data and other data sources of the previous year, instead of using more mature national accounts data of the previous two years as is usual. This approach was implemented by Member States for the first time in 2021 and then also in 2022 and 2023. Figure 2 depicts the HICP weights of the special aggregates food, energy, non-energy industrial goods, and services. Compared with 2020, HICP weights strongly decreased for services (-3.1 percentage points). This does not come as a surprise as households reduced their spending on travel and other cultural services. By contrast, the relative importance of basic necessities, such as food, increased (weight increase of 2.6 percentage points).

High energy prices and inflation rates

As shown in the previous section, the COVID-19 crisis has heavily affected HICP compilation since 2020. From an economic point of view, lockdowns in many countries distorted global supply chains. While global demand already started recovering in 2021, supply chains were still distorted due to lockdowns in many countries. This excess demand led to rising consumer prices, as shown in Figure 3. In February 2022, Russia started its war against Ukraine. Governments reacted with sanctions against Russia. As a result, consumer prices

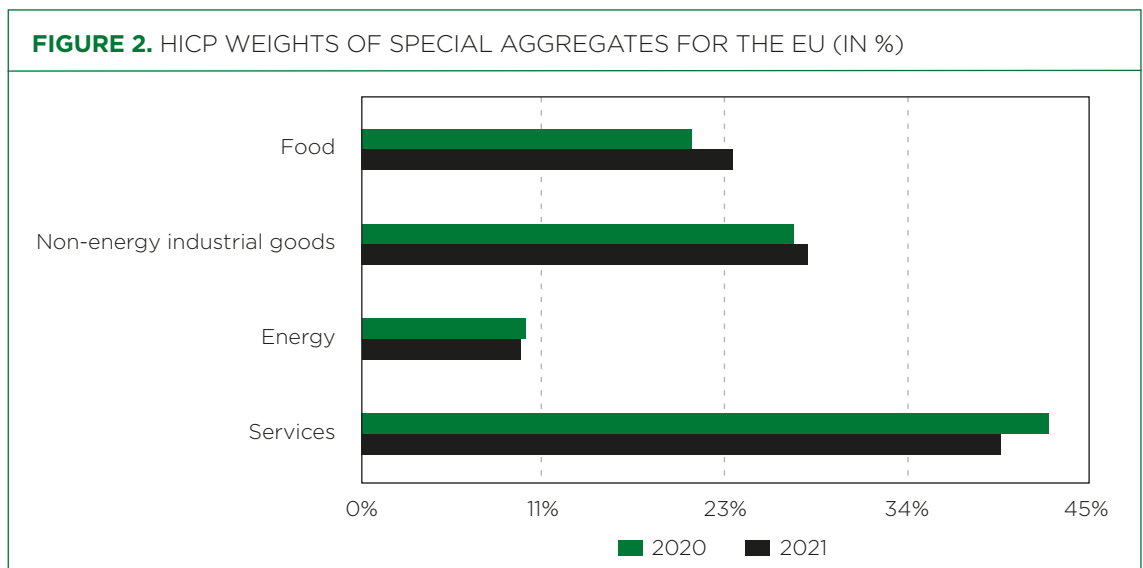
in the EU again greatly increased in 2022 (see Figure 3), leading to extraordinary high inflation rates, in particular for energy. In the EU, the annual average rate of change for energy was 35.2% in 2022, which has been by far the highest increase in HICP history. The high energy prices indirectly led to higher food prices as well, which have had an annual average rate of change of 10.2%.

Many EU governments have introduced compensation measures to help households to cope with these increased energy prices. The measures implemented, however, vary widely among countries. Their treatment in the HICP depends on the specific set-up of each measure. Eurostat surveys the various country measures and provides guidance to NSIs on the treatment of energy compensation measures to ensure consistency across countries⁸.

Digitalisation

The advancing digitalisation of most economies also affects price measurement. While most NSIs now widely use digital tools in field price

⁸ See Eurostat (2022), 'Treatment of energy prices compensation measures in the Harmonised Index of Consumer Prices (HICP)', published on 16 December 2022.



Source: Eurostat.