

Changes to the CPI from 29 January 2016

On 29 January 2016, INSEE will publish a provisional estimate of the Consumer Price Index for January 2016

Around the 15th of every month, INSEE publishes the Consumer Price Index (CPI) for the previous month. This definitive index is not revised. It is used for indexing many contracts and scales (minimum wage, social benefits, etc.).

Since 29 January 2016, INSEE has disseminated a provisional estimate of the CPI two weeks before the usual publication date. This provisional estimate is consistent with the simultaneous estimate by Eurostat of the provisional harmonised index of consumer prices for the Eurozone. The French estimate is calculated from a limited range of price observations and using estimates of changes in some prices that are not yet available. It provides leading information for institutions – especially the central banks – and economists who monitor inflation. This provisional estimate will be revised when the definitive index is published, for that will remain around the 15th of the following month. As a result, it is strongly recommended that this provisional estimate should not be used to index-link contracts (see below).

However, the expected revisions between the provisional estimate and the definitive figure will usually be very small. Based on tests on indices over recent years, the mean absolute revision between the provisional estimate and the definitive estimate of the consumer price index is 0.05 points.

In addition, as of 29 January 2016, the CPI is published using base 2015

Changing base means first changing reference year. The Consumer Price Index is calculated with reference to a base year, with a mean level of 100. Until December 2015, the index was published using base 100 in 1998. From 29 January 2016, the reference year is 2015. The mean of price indices for 2015 is therefore 100.

A change in reference year represents a simple calculation. The level of the index, which changes with the change in reference year, does not matter: what is relevant is the change in the index, and this change is not affected by the reference year in the case of a chained index like the CPI.

The CPI switched to a new base regularly: before base 1998, the previous bases for the CPI were 1990, 1970, 1962, 1956, 1949, 1914.

The change in CPI base is an opportunity to set up a new consumer classification

The classification used in the dissemination and calculation of the CPI is a classification by type of household need, or “consumption function”, called COICOP (*Classification of Individual Consumption by Purpose*). Until now, this classification was standardised by the UN and applied by Eurostat by dividing household consumption into 80 groups, corresponding to three levels of disaggregation. For its own purposes for the CPI, INSEE defined two further levels of disaggregation.

To improve the comparability of CPIs in Europe, Eurostat has defined a fourth level for this classification, common to all European Union countries. They must publish their price index according to this new classification from January 2016.

As a result of these changes, the detailed levels of the CPI, published with the definitive estimates, are adjusted accordingly: some detailed levels have been redefined to fit into the new European classification. By backcasting based on previous data at the most detailed level, it has been possible to build long series in this new classification from 1990, where data permit.

The index calculation method has also been improved

Changing base is also a good opportunity to make some important improvements in methodology.

Taking advantage of the base 2015 of the CPI, the sample of large urban areas in which prices are collected has now been overhauled, to make it more representative of current habits and places of consumption in France. In addition, the number of price readings per variety of product has been optimised to maximise the accuracy of the index.

For fresh produce, the methodology for aggregating the index has been modified. With the base 1998, the index for fresh produce was calculated using a different method from that used for other varieties to take their seasonality into account. However, this method did not allow to update the basket of fresh produce and their base prices on a regular basis (unlike other products monitored through the CPI, which are updated every year). With the base 2015, fresh produce will be treated in the same way as other varieties and their base prices will be updated every year.

Lastly, the base change is an opportunity to update certain index parameters: weighting structures, sources used for some tariffs, etc.

What index can be used to index-link a contract?

The CPI is used for index-linking many contracts. It is published every month in the *Journal officiel* (official government bulletin). As of from 2016, only the definitive estimate is still published in the *Journal officiel*; the provisional estimate of the index should not be used for revising contracts.

From 18 February 2016, when the CPI for January 2016 is published definitively using the base 2015 and it first appears in the *Journal officiel*, all the series will be available in base 2015, in particular the CPI excluding tobacco, the CPI for households that belong to the lowest equalized disposable income quintile, the CPI for urban households whose head is a worker or an employee. From this date, contract revisions should be based on series published in base 2015, which then become the official series of the CPI.