The impact of Financial Crises on the CPI

Rósmundur Guðnason, Statistics Iceland
Guðrún R. Jónsdóttir, Statistics Iceland

11th meeting of the International Working Group on Price Indices (The Ottawa Group), Neuchâtel, Switzerland, 27-29 May 2009
CPI problems in financial crises

1. Unobservable prices
   - Missing prices

2. Fall in Car sales

3. Outlets reduced sample

4. House prices
   - Fall in sales
   - Non monetary transactions

5. Changes in consumptions patterns

6. Shopping substitution bias
Unobservable prices

- Does crisis situation lead to the situation that fewer prices will be available
- In October 2008 there was a fear that it would be
- It has not been the case, similar supply of goods is monitored
  - Monthly follow up in the CPI
  - Grosseries only available prices each month used
  - More active replacement policy
Fall in car sales

- In October 2008 car sales came to stop, but list prices changed by 4.1%
- Price change not taken into account
  - effect on index 0.3%
- Price collection method changed
  - Prices of cars sold in each month
  - Collected directly from car sellers
Price collection method for cars

- If method had not been changed:
  - Inflation would have been measured 1.1% higher October 2008 to March 2009.

- If cars had been left out of the index
  - Price change would have been 0.13% higher.
Outlets sample reduced

- Crises risk of firms going bankrupt
- Clothing, 10% of outlets disappeared in October
- Stopped after that for clothing shops
- Home electronic suppliers closed down
- Other suppliers change their sortiment greatly
- Supermarket chain into discount store
House prices

- Crises in the housing market
  - sales 11,000 in 2007 to 2,000 in 2009
- Fall in sales and missing prices
  - 24% prices either missing or too few
- Non monetary payment increasing
  - Nearly 30% of all sales in 2009
Shopping substitution bias

- Household shopping behaviour
  - Buying more in low price stores
  - Average price for the household lower but prices in the stores might be unchanged
  - Should be taken into account, from the consumers side
Changes in consumption patterns

- Yearly weight revision, continuous HES results incorporated
  - Known consumptions changes measured
    - Cars weight, package tours,
    - Shopping buying patterns

- Effect of the weight change, March April
  - Price updated weights -0.13% lower CPI
  - Shopping weights -0.08%, price increase in the low price stores
  - Shopping substitution -0.12%
  - Total effect of weight change -0.20%
Public attitude to statistics

- Misconception about CPI
  - Less consumption, is it less inflation
- Great pressure on staff – questions
- Media, tv, radio, press, meetings
- FAQ to answer most questions asked