Present challenges facing Icelandic CPI/HICP

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Background

- Severe international financial crises
- The Icelandic banks were too big for the economy, 12 x GDP => crash of the financial system
- The price of foreign currencies has increased 75% in twelve months =>
- High inflation (HICP Oct-Oct: 17.9%!)
Methodological problems HICP

- Unobservable prices
- Reduced sample of outlets due to shutdowns
- Prices expressed in other currency than Icelandic Krona
- Fear of difficulties in the price collection
- Sudden change in consumption pattern
Experiences so far

• Unobservable prices:
  – No significant change in the number of missing prices, not yet a problem
    – Will be monitored monthly
  – Cars (7.2% of HICP weight):
    • Salesdata on cars shows that sales have almost stopped.
    • List prices in October showed 4.1% price increase
    • Not realistic as there is no trade with new cars
    • Statice decided to keep September prices unchanged. (effect on the CPI -0.3%).
Experiences so far

• Shutdowns already a problem in the outlet sample for clothing and footwear:
  – 10% of the sample (6 stores) closed down
  – Items in these stores dropped out of the index
  – Except in case of sales prices: Those were moved back to presales level (will be dropped out next month)
  – Price changes in the remaining outlets in the sample used
  – How to resample in the current situation?

• Prices expressed in other currency:
  – Did not occur now in the sample
Experiences continued

• Fear of difficulties in the price collection
  – Price collectors instructed before the price collection took place, no problems occurred

• Sudden change in consumption pattern
  – HICP rebased next December
    • HES 2004-2006.
    • Cars subgroup revised, based on 2008 sales data
    • Other groups examined using available sources