

10 March 2006

## **Memo on the rebased consumer price index in April 2006**

In May 2005 Statistics Iceland decided to change the method of averaging real interest rates in the model for owner occupied housing in the CPI. It was stated at that time that the new method would be reconsidered in March 2006 when the annual rebasing of the CPI takes place. It has been decided to continue to use the method with a twelve month moving average for the real interest rates. The method will be reconsidered again in March 2007.

The methods for calculating the housing price index, used in the owner occupied housing model, will be revised when rebasing the index in April. The weights for actual rents will also be revised and the methods for price collection and calculation of international flight tickets will be improved. These changes do not on their own effect the CPI result in April.

A geometric mean will be applied when calculating the housing price index instead of the arithmetic mean which has been used so far. In addition a new stratification of the housing price data will be introduced, where the capital area will be split into two strata, an inner/older and a outer/newer.

The weights for different types of housing used to calculate price changes of the actual rents will be revised and based on data from the household expenditure survey. For a period of time prices for flight tickets offered on Icelandic airlines' websites have been collected and will be incorporated into the monthly price sample used to calculate the international flights subindex.