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The rebasing of the CPI in April 2006

The Icelandic consumer price index (CPI) is rebased in April every year. At the same time the methods and practices for price collection and compilation are reconsidered. The rebasing of the CPI in April 2006 is built on a three year average of household expenditures for the years 2002-2004 collected in the continuous Household expenditure survey.

The main changes in the composition of the expenditures are in transports where the expenditure share increases from 13.1% to 16.9%, mainly owing to increased imports of new cars and fuel outlays in the three years period covered. As a result of this the share of all other expenditure groups decreases, food and non alcoholic beverages from 14.2% to 13.3% and imputed rentals from 17.2% to 16.8%.

The revision of the weights for groceries is based on expenditures in the years 2003-2005. Because of the increased share of low price stores in this period this revision led to a lowering of the CPI by 0.03% in April.

The compilation methods and price collection of international air fares have been improved. For one year, prices have been collected on the airlines' websites and those prices have now been incorporated in the index. In the last twelve months, the prices of "web fares" have decreased while other prices have increased leading to an overestimation of the air transport index by 10% (effect on the CPI 0.11%). This is corrected now. Other changes of weights in the index do not influence the price measurement in April.

Methods used to calculate the house price index in the user cost model for owner occupied housing have been improved. The aim is to better allow for quality changes in the housing market. The methods implemented are:

- The geometric mean replaces the arithmetic mean when averaging house prices within each stratum.
- The capital area has been split into two strata, an inner/older and an outer/newer. This increases the number of subindices calculated from 16 to 26.
- The weights used for calculation of the total house price index now reflect the value of all dwellings sold in the last three years instead of being based on the number of dwellings sold.
- The house price index will be calculated as a superlative index (Fischer) using the values for 2002-2005 as the weight for the Laspeyres index and the values for 2003-2006 to calculate the Paasche index. The weights will be changed monthly.



These changes in methodology do not affect the price measurement in April. They will be further outlined in a separate issue of Statistical Series on 3 May 2006.