

Memorandum on the Building Cost Index Correction in April 2011

A programming error has been discovered in the Building Cost Index in connection with labour cost calculations, resulting in a systematic underestimation of the index since March 2010. Recalculations indicate that in April 2011 the Building Cost Index is approximately 4% lower because of this error. This disparity in the Building Cost Index will be corrected and the results, published on the coming 20 April. The BCI will increase accordingly, in addition to regular monthly index level changes between April and May.

The Building Cost Index is commonly used for indexation of contracts or other obligations. The increase of the index level will be fully accounted for in the Building Cost Index in May 2011. To guide users in revaluating settlements of indexed contracts, Statistics Iceland will on 20 April publish a new corrected shadow time series covering the period January 2010 to April 2011.

Statistics Iceland uses the Building Cost Index in calculations of the subindex for regular maintenance of the dwelling in the Consumer Price Index. A rough estimation of the effect of the correction on the Consumer Price Index indicates an increase by 0.1–0.2% in May. Statistics Iceland rebased the Building Cost Index in January 2010. The coverage of the index was increased and price measurement for labour cost based on data collected by Statistics Iceland for compilation of the Wage Index. In March 2010 the procedure for importing the wage statistics data into the Building Cost database was upgraded, during which the error was made. A development of formal business process models in the production of statistics has been underway at Statistics Iceland. In light of this incident the implementation of these models at Statistics Iceland will be expedited.

Extensive testing of the new system for the Building Cost Index was carried out during the rebase, but when the error emerged during the import procedure update, proper inspections were not carried out. The system has now been amended and testing reveals that the error has been successfully eliminated. With improved business process models this kind of a mistake should be prevented. Statistics Iceland is also reviewing the internal monitoring system within the Building Cost Index with the aim of better securing data quality. Systematic checks for consistency between wage statistics in the Building Cost Index and other wage and labour cost statistics will be ensured.

No major changes have been made recently to any of the other price indices systems. Separate monitoring systems are used for quality control for the other price indices, so there are not indications that similar errors can be found in other price indices.

To facilitate and ensure involvement of users of the Building Cost Index, Statistics Iceland will be forming a user group for the index as a platform for discussion on methods and development of the Building Cost index.

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