



## **Palau Consumer Price Index**

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### **Concepts and Definitions**

#### **What is a Consumer Price Index?**

The Consumer Price Index or CPI is an important economic indicator. It provides a general measure of changes in prices each quarter of consumer goods and services purchased by households in Koror. The items included in the CPI were selected to represent the goods and services usually purchased by households.

The simplest way of thinking about the CPI is to imagine a basket of goods and services comprising items typically bought by households. Now imagine the basket is purchased each quarter. As prices change from one quarter to the next, so too will the total price of the basket. The CPI is simply a measure of the changes in the prices of this fixed basket as the prices of items in it change.

The Bureau of Budget and Planning, Office of Planning and Statistics produce CPI figures for each quarter (three months ending March, June, September and December). These figures are available one month following the end of the quarter.

#### **What does the CPI measure?**

It is important to remember that the CPI measures price movements (i.e. percentage changes) and not actual price levels (dollar amounts).

The CPI should not be confused with terms like purchasing power or cost-of-living index. The CPI is a measure of price inflation (or deflation) only. The measurement of purchasing power or cost-of-living would require separate purpose built indexes.

#### **How is the CPI used?**

The CPI affects everyone in Palau because of the many ways it is used. Its main use is as the official measure of inflation within the economy. Inflation, and what the population thinks inflation should be, plays a major role in determining various aspects of Government economic policy, and the business and investment decisions of private firms and individuals. Another key use of the CPI is monitoring the value of welfare benefits so that these benefits can be adjusted to counter the effects of inflation.

#### **Coverage of the CPI**

The CPI covers goods and services from Koror State only. The CPI should cover all households in Palau, but this is not possible due to the substantial additional resources required to collect prices outside Koror. Research from other countries has shown that, in general, price movements (as opposed to price levels) are similar across regions.

The CPI does not include financial services (fees and charges for personal loans, housing mortgages, car loans and credit card advances) because reliable information on these expenditures was not available when the CPI was developed.

#### **Structure of the CPI**

There are 8 groups in the CPI, each representing a specific set of commodities. These groups are in turn divided into 32 subgroups, and the sub-groups contain 120 expenditure items. Prices on these expenditure items are collected from 44 different retail outlets (private and public sector). The structure of the CPI is shown in Table 1.

#### **Do all items in the CPI have the same importance?**

When the CPI was developed it was recognised that some items are more important than others. Price changes for the more important items should have greater importance on the overall average than price changes for less important items. For example, if household expenditure on fish is three times as large as expenditure on breakfast cereal, then a 10% price increase for fish should have three times the size of the impact on the CPI as a 10% price increase for breakfast cereal.

This relative importance of different items is incorporated into the CPI by the weighting pattern applied to the groups, subgroups and items. Measures of expenditure for each of the 120 items were derived from the Household Income and Expenditure Survey (HIES) expenditure data, with adjustments made for known instances of underreporting (the most notable being for alcohol and tobacco) and any other anomalies. The adjusted HIES data was then used to derive a 'weight' for each expenditure class. The weighting pattern used in the CPI is shown in Table 1.

#### **How are the prices collected?**

Trained field staff operating out of the Bureau of Budget and Planning, Office of Planning and Statistics carry out the collection of prices in Koror. Prices are collected from the kinds of retail outlets and other places where households would be expected to purchase goods and services. This involves collecting prices from many sources such as supermarkets, restaurants, schools, gas stations and markets, as well as the government authorities concerned. In total around 600 separate price quotations are collected each quarter.

#### **How to interpret index changes**

A price change can be expressed as a percentage change between two periods. The base period of the index (June 2000) has a value of 100, and subsequent periods are derived against this base. Thus, an index of 110.7 for a given period means the price level increased by 10.7% from the base period. Printed tables present a summary of the CPI data, which will provide a picture of price level changes over time.

#### **For more information...**

Contact the Bureau of Budget and Planning, Office of Planning and Statistics, Ministry of Finance.

Table 1: Structure of the CPI, prices collected, outlets samples and CPI weight

<b>Group</b>	<b>Sub-Group</b>	<b>CPI Items</b>	<b>Prices Collected</b>	<b>CPI Weight</b>
<b>Food and beverages</b>		<b>50</b>	<b>109</b>	<b>25.35</b>
	Fish, fresh, frozen & canned	4	8	2.06
	Meat, poultry & egg	6	12	4.90
	Fruit and vegetables	10	22	2.43
	Cereal, bakery, sugar and confectionery	9	19	4.48
	Fats & oil	2	4	0.50
	Condiments & spices	5	13	0.75
	Dairy products	6	14	1.79
	Non-alcoholic beverages	4	9	2.57
	Other food & food away from home	4	8	5.87
<b>ALCOHOL, TOBACCO &amp; BETEL NUT</b>		<b>6</b>	<b>14</b>	<b>17.52</b>
	Tobacco	1	3	5.44
	Alcohol	4	9	9.75
	Betel nut	1	2	2.33
<b>CLOTHING &amp; FOOTWEAR</b>		<b>7</b>	<b>7</b>	<b>1.62</b>
	Clothing	5	5	1.42
	Footwear	2	2	0.20
<b>HOUSING</b>		<b>8</b>	<b>18</b>	<b>6.91</b>
	Household maintenance	5	14	4.49
	Rent	1	2	2.09
	Insurance	2	2	0.32
<b>HOUSEHOLD OPERATIONS</b>		<b>23</b>	<b>39</b>	<b>19.03</b>
	Household utilities and fuels	4	5	9.16
	Household appliances	6	11	1.77
	Furniture and home furnishings	2	3	0.80
	Household supplies	4	8	2.18
	Toiletries	3	6	0.56
	Household Service	2	3	2.35
	Household communications	2	3	2.21
<b>TRANSPORTATION</b>		<b>10</b>	<b>16</b>	<b>16.77</b>
	Motor fuel and oil	3	6	5.07
	Motor vehicle & boat expense	5	8	9.56
	Transportation	2	2	2.14
<b>HEALTH, PERSONAL CARE, EDUC. &amp; SERVICES</b>		<b>13</b>	<b>20</b>	<b>9.29</b>
	Health	4	4	3.54
	Personal care	3	6	1.78
	Education	4	7	2.78
	Personal Service	2	3	1.19
<b>LEISURE AND ENTERTAINMENT</b>		<b>3</b>	<b>4</b>	<b>3.52</b>
	Leisure and sporting equipment	3	4	3.52
<b>TOTAL</b>		<b>120</b>	<b>227</b>	<b>100.00</b>