

Palau Consumer Price Index base period revision: September 2016 = 100

Starting from the first quarter of 2018, the Palau Office of Planning and Statistics has switched to calculating its quarterly Consumer Price Index (CPI) series on the basis of an updated set of weights and basket of representative goods and services. Concurrent with the update of weights, the classification used for publication will be based on COICOP to facilitate international comparisons. The new CPI series will replace the old series and will use September 2016 = 100 as the price index reference quarter.

Background

The CPI is based on price information collected mostly at Palauan stores selling consumer goods. This information is used to monitor the price changes for a wide variety of goods and services, chosen to be a representative “basket” of overall consumption expenditures by Palauan households.

The CPI is calculated as the weighted average of the price changes of the individual products and services. The weights used for this calculation are the relative shares of expenditure on individual products during the so-called base period. Because these relative shares change over time, the base period and weights must be regularly updated so that the CPI continues to accurately reflect current consumer expenditure patterns.

Revision of the base period also present an opportunity to implement improvements to the index, which cannot be implemented in an ongoing series. These include changes to the methodology, the inclusion of new product groups, and changes to the classification.

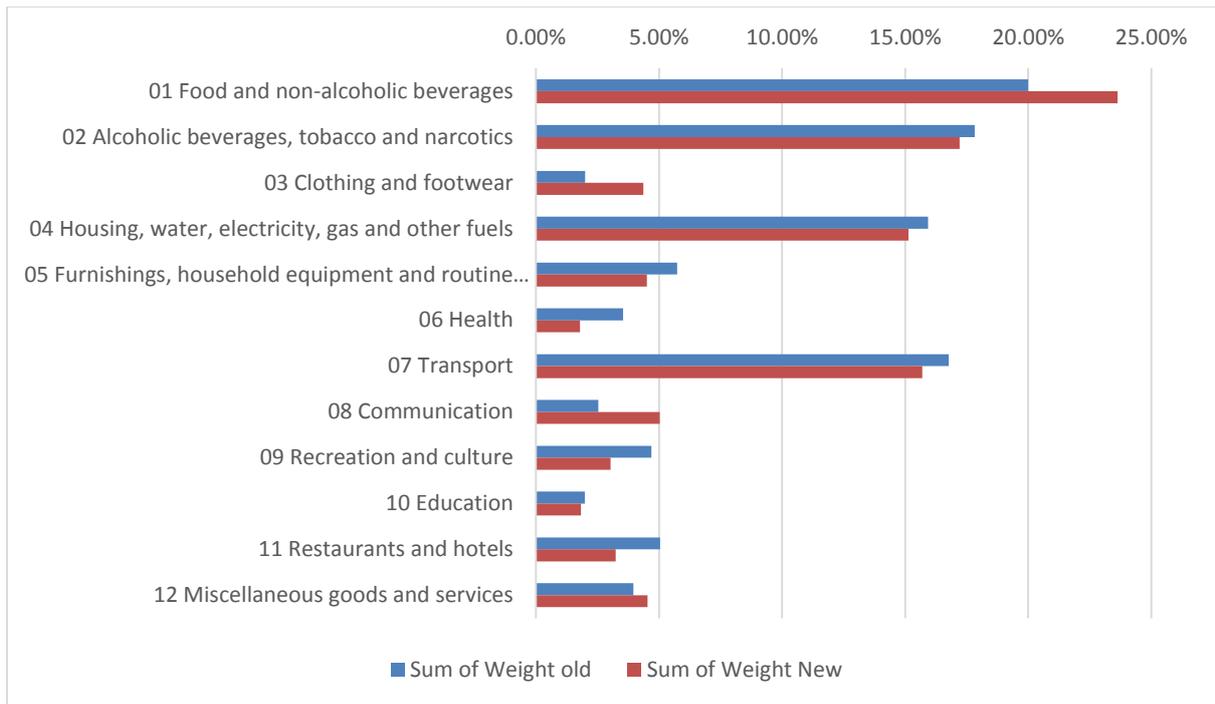
Key changes in the new CPI series

Starting from September 2018, the CPI series is calculated on the basis of an updated set of weights and basket of representative goods and services. The new CPI series will replace the old series and will use September 2016 = 100 as the price index reference quarter June 2012 = 1.000.

The weights for the new series reflect the Palauan consumer expenditure pattern in 2014 and are based on the Household Income and Expenditure Survey (HIES) taken then. This is a significant update from the old series, for which the weights were based on expenditure estimates from 2006.

The graph below shows the changes in the weights for the most important product groups. By far the biggest change is the drop of 8% points in the *Food and non-alcoholic beverages*. Despite a period of 12 years having passed, the new and old weights at the highest level are very similar. The most notable change is a substantial increase in the weight of food and non-alcoholic beverages with increases by almost 4 percentage points. As a result, we see a small reduction in the weights for most other categories.

The new CPI series includes some important products that were previously not covered by the CPI. In particular, the basket of goods and services has been updated to include additional representative items for food, alcoholic beverages and clothing items. Furthermore, the number of observations used to estimate the change in average rents was increased substantially.



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