

Introduction of the Series 2 Consumer Price Index for Timor- Leste

General Directorate of Statistics
May 2013

Aim of Presentation

- To advise of the issues that were raised in the stakeholder consultation phase of the CPI review
- To set out the GDS views on the issues raised
- To advise on decisions that have been taken in regard to the new CPI
- To advise on next steps and a future program of work on prices statistics
- A companion presentation will present the Series 2 CPI results for January to April 2013

Background (1)

- The current monthly *Dili* CPI was introduced in December 2001 and the quarterly *National* CPI was introduced in June 2003
- The index had not been reviewed or re-weighted since then and hence it became very out of date
- A review and re-weighting has now been completed and the new (Series 2) CPI has been compiled as from January 2013

Background (2)

- The first publications of the new Series CPI in respect of January, February, March and April 2013 are being released today. We needed to ensure the new index was performing well before we released and hence needed a few months of data.
- Hereafter the statistics should be published promptly in the middle of each month and strictly in accordance with pre-announced release dates.
- The monthly CPI will henceforth be published on the third Tuesday of each month following the reference month.
- The May 2013 CPI will be published on Tuesday, June 18, 2013.

Background (3)

- An Information Paper titled "*Review of Timor-Leste Consumer Price Index (CPI) 2012: Issues for Consideration*" was released in November 2012
- This provided the basis for a stakeholder consultation phase on the CPI review
- The issues were discussed at the CCFM meeting in November and a public seminar was held on November 16
- Many comments were made about the CPI and prices statistics more generally

Issues Raised in the Consultation Phase

1. There should be a monthly CPI analytical index available for *each District* as well as the monthly *National* CPI
2. Expand the range of price indexes available to inform on inflationary pressures
3. Be able to identify the main areas of inflationary pressures
4. Make CPI price surveys representative of all of Timor-Leste not just major urban areas. For example, include price experience of isolated districts like Oecusse
5. Concern that the CPI is not measuring the price inflation experience of low income households
6. Publish "rice" as a separate expenditure class given its importance, particularly to low income households

Issue 1: Monthly CPI analytical indexes for each District

- This is not possible as the 2011 Household Income and Expenditure Survey (HIES) was not able to provide reliable expenditure weights for each District
- Instead, the Series 2 CPI will provide monthly analytical indexes for *Dili* and for all other Districts combined (*Ex-Dili*)
- When the next HIES is being developed, consideration should be given to substantially increasing the sample size to allow for reliable CPI weights to be calculated for each District

Issue 2: Expand the range of price indexes available to inform on inflationary pressures

- The CPI is typically regarded as the best measure of headline inflation. The top priority should be to ensure it reliably measures consumer price experiences
- Additional price indexes should be progressively developed for policy analytical purposes and for compiling national accounts constant price estimates
- A logical sequence of development would be export and import price indexes; a range of producer price indexes; and a labour price index. GDS will seek to incorporate such a development program into its medium-term work program

Issue 3: Identify the main areas of inflationary pressures

- The Series 2 CPI calculates and publishes the “points contribution” that each expenditure class and group makes to the overall CPI
- GDS will seek to implement a decomposition of the CPI into “tradables” and “non-tradables”. Such a decomposition can inform on the impact that imported goods and services might have on headline inflation

Issue 4: CPI price surveys to be representative of all Timor-Leste

- The expenditure patterns of all Timor-Leste households are represented in the Series 2 CPI
- The Series 2 CPI has separate weighting patterns for *Dili* and *Ex-Dili*
- The new price surveys *increase* the coverage of Districts where prices are collected - *Ainaro, Baucau, Suai, Maliana, Oecusse, Ermera*
- Prices collected in District markets include items like rice, vegetables, sugar, areca nut, tobacco, kerosene, cooking oils and microlet fares

Issue 5: Measuring the price inflation of low income households

- Low income households are included in the CPI expenditure weights
- Low income households are more prevalent *Ex-Dili* than in *Dili*. Hence the *Ex-Dili* analytical index might be a better approximation of the price experience of low income households
- That said, GDS will further analyze the HIES data to establish whether reliable weights can be determined to calculate a specific analytical index covering only low income households. This work will be done once the new CPI is successfully bedded in.

Issue 6: Given its importance, publish “rice” as a separate expenditure class

- This has been done
- The old expenditure class “Cereals, roots and their products” is now split into:
 - Bread and cereals (excluding rice)
 - Rice
 (Tubers and roots will henceforth be in the “vegetables” expenditure class)

What the Review has Achieved

- A monthly *National* CPI (rather than quarterly as at present). Monthly analytical indexes will also be available for Dili and Ex-Dili
- Up to date weighting patterns based on the 2011 HIES
- An updated commodity classification based on the international standard *Classification of Individual Consumption according to Purpose (COICOP)*
- A more detailed commodity classification with “points contribution” calculated so that users can ascertain what is “driving” the headline CPI
- Adoption of more appropriate compilation methodology (geometric means). This will reduce upwards bias in the compilation process.
- A *Guide to the Series 2 CPI* has been produced and will be published to inform users about the concepts, sources and methods used in compiling the CPI

New National weights

(Note: Dili weights were used for all of Timor-Leste in Series 1)

Group	Series 1 (June 2003)	Series 1 (Dec 2012)	Series 2 (Dec 2012)
Food and non-alcoholic beverages	56.5	63.9	64.3
Alcohol and tobacco	4.8	4.2	4.9
Clothing and footwear	8.9	7.2	5.9
Housing	10.2	9.9	5.7
Furnishings, household equipment and routine household maintenance	7.9	4.7	4.1
Health	4.2	3.8	0.7
Transport	3.2	3.6	6.4
Communication	1.0	0.6	2.3
Recreation and culture	1.8	1.0	3.3
Education	1.6	1.1	2.3

Index Reference Period

- The Series 2 CPI and the Dili and Ex-Dili analytical indexes have been re-referenced to December 2012 = 100.0
- The Series 2 has been spliced on to Series 1 to give one continuous series. Apart from the re-referencing, there are NO revisions to Series 1 data

New Publication Format

- The changes described above necessitate major changes to the publication format
- A second Information Paper that is being published today advises users of the changes. It will also advise them of the new expenditure weights.

Next Steps

- Publish today the Information paper “*Introduction of the Series 2 Consumer price Index*”. This will inform stakeholders of the outcome of the CPI review
- The *Guide to the CPI* will be published in conjunction with the Information Paper. It sets out CPI concepts, sources and methods
- First publications of the new index in respect of January, February, March and April 2013 today.
- Thereafter publication of Series 2 CPI each month on the third Tuesday of each month strictly in accordance with pre-announced release dates.
- Once the new CPI has been bedded in, work can start on some of the other price index issues discussed above.