

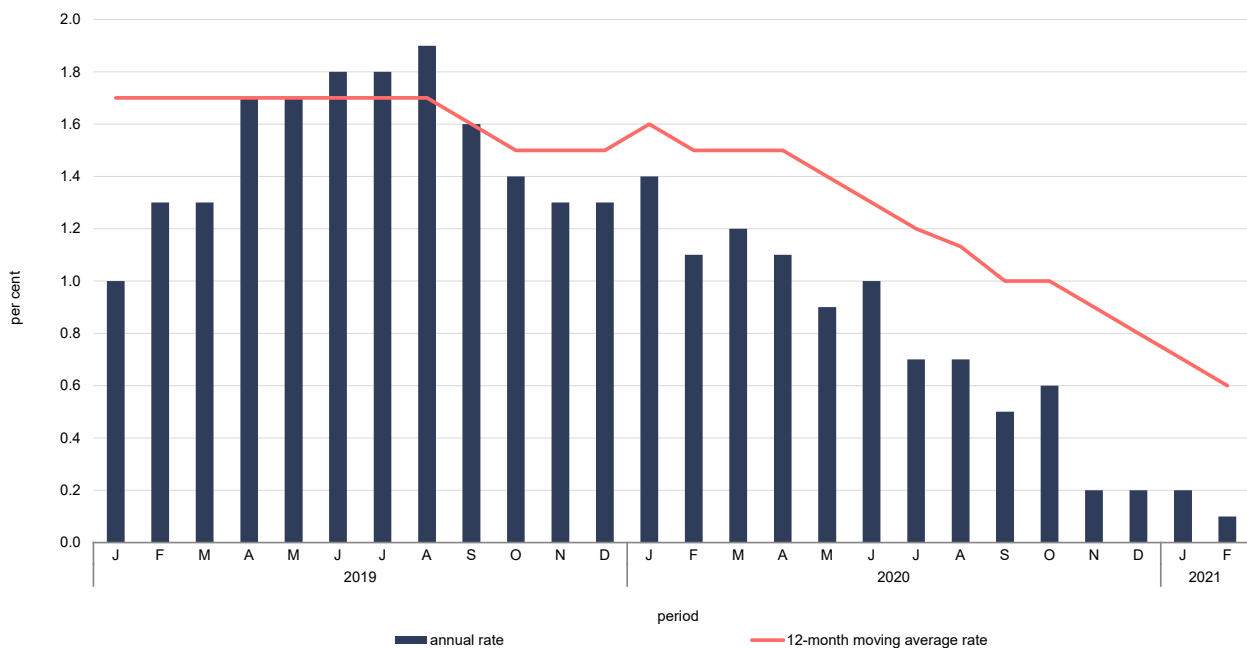
17 March 2021 | 1100 hrs | 049/2021

Harmonised Index of Consumer Prices (HICP): February 2021

1. Main points

- In February 2021, the annual rate of inflation as measured by the HICP was 0.1 per cent, down from 0.2 per cent in January 2021 (Table 2).
- The 12-month moving average rate for February stood at 0.6 per cent (Table 2).
- The largest upward impact on annual inflation was measured in the Recreation and Culture Index (+0.08 percentage points), while the largest downward impact was recorded in the Transport Index (-0.14 percentage points) (Chart 2).

Chart 1. Inflation rates



Details on the compilation of the HICP within the context of COVID-19 are available in the methodological notes.

2. Overview

The HICP measures monthly price changes in the cost of purchasing a representative basket of consumer goods and services. The HICP is calculated according to rules specified in a series of European Union (EU) regulations that were developed by Eurostat in conjunction with the EU member states. The HICP is used to compare inflation rates across the EU. A closely related measure of price movements is the Retail Price Index (RPI). A description of the differences between the HICP and the RPI can be found in Section 5.2 of this news release.

Each monthly HICP news release includes three different measures of inflation:

- i. The annual inflation rate measures average price changes between the reference month and the same month of the previous year. Although responsive to recent changes in price levels, this measure can be influenced by one-off effects in either month.
- ii. The monthly inflation rate compares price changes between the reference month and the previous month. This measure can be highly influenced by seasonal effects.
- iii. The 12-month moving average rate overcomes the volatility of the above two rates by comparing the average of the latest 12 indices to the average of the previous 12 indices. This measure is less sensitive to temporary changes in prices.

3. Price changes and effects on inflation

Table 1 shows that the highest annual inflation rates in February 2021 were recorded in Education (2.5 per cent) and Health (2.0 per cent). On the other hand, the lowest annual inflation rates were registered in Clothing and Footwear (-1.3 per cent) and Transport (-1.1 per cent).

Table 1. HICP indices

Average 2015=100¹

| Division | Weight | Indices | | | Annual rate (%) | Monthly rate (%) |
|--|-----------------|---------------|---------------|---------------|-----------------|------------------|
| | | Feb 2020 | Jan 2021 | Feb 2021 | Feb 2021 | Feb 2021 |
| Food and Non-alcoholic Beverages | 181.13 | 112.33 | 112.96 | 112.28 | 0.0 | -0.6 |
| Alcoholic Beverages and Tobacco | 40.15 | 108.41 | 108.82 | 108.96 | 0.5 | 0.1 |
| Clothing and Footwear | 42.97 | 83.73 | 81.52 | 82.66 | -1.3 | 1.4 |
| Housing, Water, Electricity, Gas and Other Fuels | 102.38 | 106.77 | 107.09 | 107.50 | 0.7 | 0.4 |
| Furnishings, Household Equipment and Routine Household Maintenance | 88.15 | 107.69 | 106.42 | 107.65 | 0.0 | 1.1 |
| Health | 48.06 | 107.77 | 109.75 | 109.92 | 2.0 | 0.2 |
| Transport | 123.56 | 102.82 | 101.06 | 101.73 | -1.1 | 0.7 |
| Communication | 38.97 | 96.60 | 95.97 | 95.96 | -0.7 | 0.0 |
| Recreation and Culture | 77.84 | 99.52 | 99.38 | 100.45 | 0.9 | 1.1 |
| Education | 27.23 | 107.17 | 109.88 | 109.88 | 2.5 | 0.0 |
| Restaurants and Hotels | 144.52 | 93.68 | 91.80 | 93.50 | -0.2 | 1.8 |
| Miscellaneous Goods and Services | 85.03 | 105.81 | 106.58 | 106.42 | 0.6 | -0.1 |
| All Items | 1,000.00 | 102.63 | 102.22 | 102.75 | 0.1 | 0.5 |

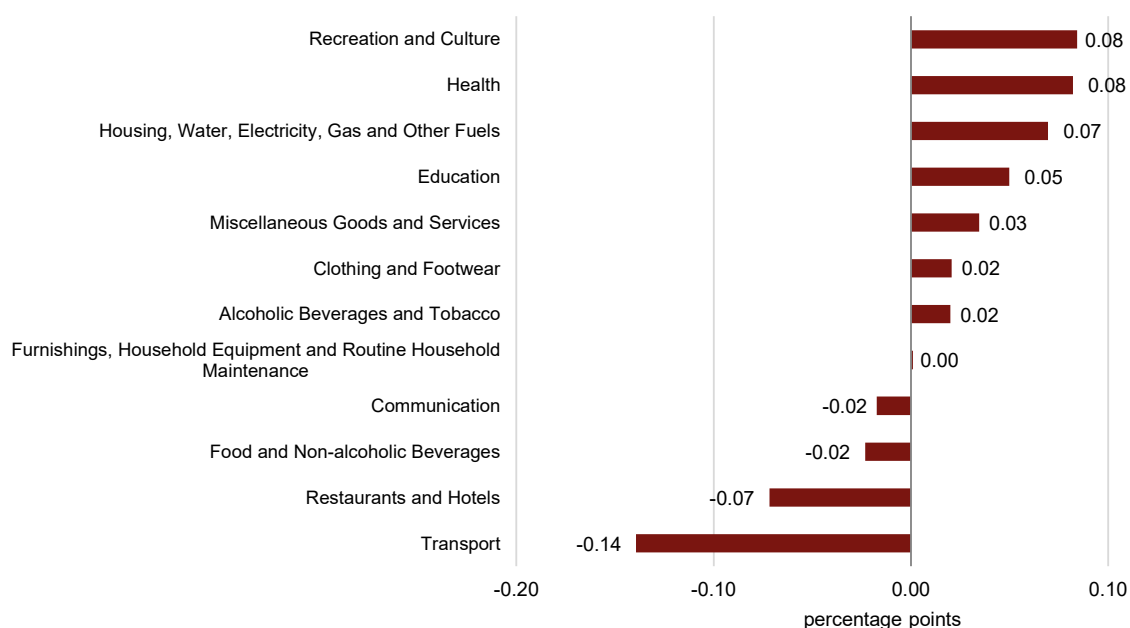
¹ see methodological note 5.3

Chart 2 depicts the impacts on the annual inflation rate by the 12 main divisions. An impact is a measure showing the change in inflation as a result of the inclusion of an index. Such an impact takes into account both the weight and the annual rate of inflation by division.

In February 2021, the largest upward impact on annual inflation was registered in the Recreation and Culture Index (+0.08 percentage points), largely due to higher prices of flowers. The second and third largest impacts were measured in the Health Index (+0.08 percentage points) and the Housing, Water, Electricity, Gas and Other Fuels Index (+0.07 percentage points), mainly on account of higher prices of medical services and house maintenance services respectively (Chart 2).

The largest downward impacts on annual inflation were registered in the Transport Index (-0.14 percentage points), the Restaurants and Hotels Index (-0.07 percentage points) and the Food and Non-alcoholic Beverages Index (-0.02 percentage points), mainly reflecting lower prices of fuels, accommodation services and vegetables respectively (Chart 2).

Chart 2. Contribution to the annual inflation rate by the 12 main divisions: February 2021



Note: A percentage point is the arithmetic difference between two percentages.

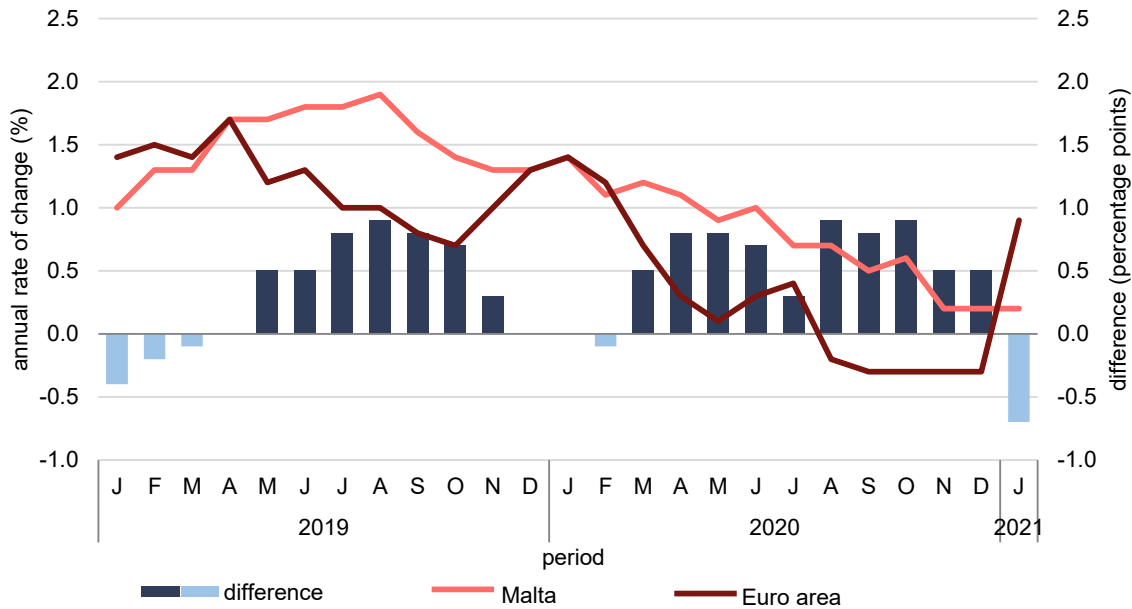
Table 2. Inflation rates by year and month

| Month | 2019 | | 2020 | | 2021 | |
|-----------|-----------------|----------------------------------|-----------------|----------------------------------|-----------------|----------------------------------|
| | Annual rate (%) | 12-month moving average rate (%) | Annual rate (%) | 12-month moving average rate (%) | Annual rate (%) | 12-month moving average rate (%) |
| January | 1.0 | 1.7 | 1.4 | 1.6 | 0.2 | 0.7 |
| February | 1.3 | 1.7 | 1.1 | 1.5 | 0.1 | 0.6 |
| March | 1.3 | 1.7 | 1.2 | 1.5 | | |
| April | 1.7 | 1.7 | 1.1 | 1.5 | | |
| May | 1.7 | 1.7 | 0.9 | 1.4 | | |
| June | 1.8 | 1.7 | 1.0 | 1.3 | | |
| July | 1.8 | 1.7 | 0.7 | 1.2 | | |
| August | 1.9 | 1.7 | 0.7 | 1.1 | | |
| September | 1.6 | 1.6 | 0.5 | 1.0 | | |
| October | 1.4 | 1.5 | 0.6 | 1.0 | | |
| November | 1.3 | 1.5 | 0.2 | 0.9 | | |
| December | 1.3 | 1.5 | 0.2 | 0.8 | | |

4. HICP (Malta and euro area)

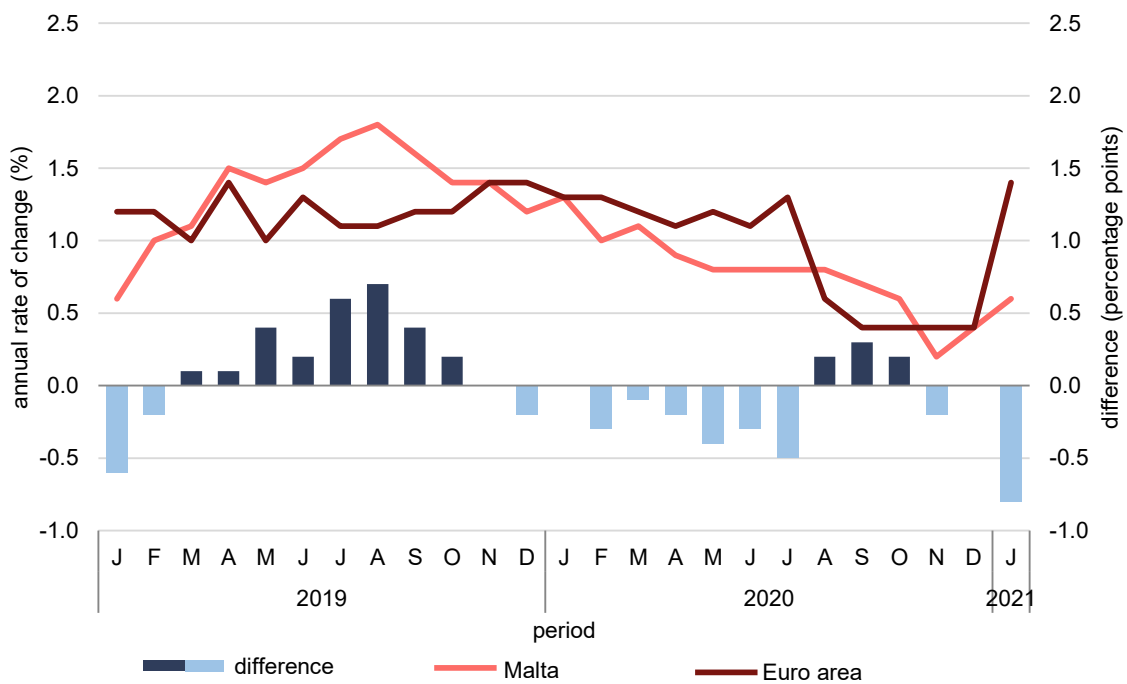
This section compares the Maltese HICP with the euro area counterpart for the latest available data, that is, January 2021. In January, the annual rate of change registered by the Maltese HICP All-Items Index was 0.2 per cent, 0.7 percentage points lower than the 0.9 per cent registered for the euro area (Chart 3). The annual rate of change for the Maltese All-Items HICP excluding energy and unprocessed food was 0.6 per cent, 0.8 percentage points lower than the 1.4 per cent registered for the euro area (Chart 4).

Chart 3. All-Items HICP in Malta and the euro area



Source: Eurostat

Chart 4. All-Items HICP excluding energy and unprocessed food in Malta and the euro area



Source: Eurostat

5. Background notes

5.1 Accessing data

HICP and RPI NSO news releases may be accessed from:

https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A5/Price_Statistics/Pages/Harmonised-Index-of-Consumer-Prices.aspx and

https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A5/Price_Statistics/Pages/Retail-Price-Index.aspx respectively.

Eurostat news releases on HICP may be accessed from:

<https://ec.europa.eu/eurostat/web/main/news/euro-indicators>

5.2 Differences between HICP and RPI

Both indices are compiled using a large and representative selection of more than 440 different goods and services for which price movements are regularly monitored. Around 10,000 separate price quotations are used each month to compile the Index.

The methodology underlying HICP and RPI is similar, yet they differ by the following:

- i. The RPI captures private households only, whereas the HICP covers private households, institutional households (such as retirement homes) and foreign visitors to Malta.
- ii. The population base year of the two indices is different. The RPI is a fixed base index with weights periodically updated in line with the Household Budgetary Survey. On the other hand, the HICP is a chain-linked index with the weights reviewed on an annual basis. Unlike the RPI, where the sample of goods and services changes every time the weights are updated, newly significant goods and services can be introduced in the HICP framework on an annual basis.
- iii. The coverage of the HICP is based on an international classification system, COICOP (Classification of Individual Consumption by Purpose), whereas the RPI has a different set of codes for each group of items, as explained in the table below.

| Group | COICOP division | Weight (out of 1000) | RPI group | Weight (out of 100) |
|-------|--|----------------------|---|---------------------|
| 1 | Food and Non-alcoholic Beverages | 181.13 | Food (including restaurant services and take-aways) | 21.49 |
| 2 | Alcoholic Beverages and Tobacco | 40.15 | Beverages and Tobacco | 5.56 |
| 3 | Clothing and Footwear | 42.97 | Clothing and Footwear | 6.62 |
| 4 | Housing, Water, Electricity, Gas and Other Fuels | 102.38 | Housing | 7.90 |
| 5 | Furniture, Household Equipment and Routine Household Maintenance | 88.15 | Water, Electricity, Gas and Fuels | 3.31 |
| 6 | Health | 48.06 | Household Equipment and House Maintenance Costs | 6.97 |
| 7 | Transport | 123.56 | Transport and Communication | 22.10 |
| 8 | Communication | 38.97 | Personal Care and Health | 8.81 |
| 9 | Recreation and Culture | 77.84 | Recreation and Culture (including education) | 9.90 |
| 10 | Education | 27.23 | Other Goods and Services | 7.34 |
| 11 | Restaurants and Hotels | 144.52 | | |
| 12 | Miscellaneous Goods and Services | 85.03 | | |
| | Total | 1,000.00 | Total | 100.00 |

Apart from the disparities identified above, both the RPI and the HICP:

- have the same geographic coverage, implying that both indices refer to the whole country;
- utilise the same price collection methodologies; and,
- utilise the same outlet sample (with some exceptions).

5.3 Further information

The HICP is used to compare inflation rates across the EU. It has been used by the European Central Bank (ECB) as the measure of price stability across the euro area since January 1999. Indeed, the HICP was developed in the EU for the purpose of assessing whether prospective members of the European Monetary Union would meet the inflation convergence criterion, and later acting as the measure of inflation used by the ECB to assess price stability in the euro area. The main requirement was for a measure that could be used to make reliable comparisons of inflation rates across EU member states. Such comparisons are not possible using national consumer price indices due to differences in index coverage and construction.

The HICP is published with 2015 as its base year. The previous series with reference 2005=100 has been discontinued. Commission Regulation (EU) No 2015/2010 provides the legal basis for updating the HICP reference year from 2005=100 to 2015=100. It should be noted that the re-basing operation was conducted after rounding all past indices to one decimal place. Therefore, there might be slight differences when comparing this series with past data due to rounding.

The HICP largely follows National Accounts (NA) concepts of what constitutes household consumption in determining the index scope and mainly uses NA data sources to weight the items in the basket. This makes for increased coherence between the HICP commodity and population coverage and NA principles. As a result, HICP weights are therefore based on the final consumption expenditure of all individuals in the domestic territory, including spending by private households, institutional households and foreign visitors. NA principles have also influenced the classification of goods and services within this index. The basket of consumption items considered for the HICP is reviewed annually in line with NA data collected over a 12-month period in order to obtain an estimate of the average household expenditure. New products are included in the basket of items when achieving a sales volume of over one part per thousand of total consumer expenditure covered by the HICP.

The HICP weighting scheme is annually updated in accordance with Commission Regulation (EU) No 1114/2010. The treatment of seasonal items is in accordance with Commission Regulation (EC) No 330/2009.

The HICP Flash Estimates started being compiled and transmitted to Eurostat on a monthly basis as from January 2017. These refer to tentative HICP indices and are used to provide an insight to users about the annual rates of special aggregates as determined by Eurostat. Eurostat collects data from all European member countries and compiles annual rates of special aggregates for the entire euro area.

Users are advised to consult the NSO before comparing the results of the HICP and the RPI.

More information on the metadata underlying HICP and RPI news releases may be accessed from:

Sources and methods: https://nso.gov.mt/en/nso/Sources_and_Methods/Unit_A5/Price_Statistics/Pages/Harmonised-Index-of-Consumer-Prices.aspx

Statistical concepts: <https://metadata.nso.gov.mt/concepts.aspx>

Metadata (HICP): <https://metadata.nso.gov.mt/ConceptDetails.aspx?id=942>

Metadata (RPI): <https://metadata.nso.gov.mt/ConceptDetails.aspx?id=1779>

COICOP division classification: <https://metadata.nso.gov.mt/classificationdetails.aspx?id=COICOP%201999>

RPI and HICP manual:

https://nso.gov.mt/en/nso/Sources_and_Methods/Unit_A5/Price_Statistics/Documents/RPI_and_HICP_Manual.pdf

Eurostat statistical database: <https://ec.europa.eu/eurostat/web/hicp/data/database>

References to this news release are to be cited appropriately.

The euro area mentioned in Section 4 refers to the 19 Member States that adopted Euro as their national currency.

5.4 Publication policy

A calendar for future news releases may be accessed through the link:

https://nso.gov.mt/en/News_Releases/Release_Calendar/Pages/News-Release-Calendar.aspx

6. Methodological notes

6.1 The compilation of the HICP in the context of COVID-19

In the past months, as a result of developments related to COVID-19, the NSO has adapted its methodology to preserve continuity and ensure that developments in prices continue to be measured systematically and reliably. In doing so, NSO has closely followed the guidance issued by Eurostat following close collaboration with the member states' National Statistical Institutes, which ensures a harmonised approach across all countries.

For the reference months of April, May and June 2020, whenever the restrictive measures in place inhibited field price collection, alternative sources and methods such as websites, email exchanges and telephone interviews, were undertaken. In situations where: (i) the product was available on the market but a price reading could not be obtained or (ii) the product was not available on the market, the price was imputed. Further details are available in the news releases pertaining to these months and from Eurostat's methodological note, which is available at:

https://ec.europa.eu/eurostat/documents/10186/10693286/HICP_guidance.pdf

Since many restrictive measures in Malta were then lifted, for the reference months of July onwards, the usual coverage of price readings was possible, and thus no imputations related to COVID-19 were required. NSO has followed Eurostat's guidelines on issues relating to the lifting of lockdown measures, which are available at:

https://ec.europa.eu/eurostat/documents/10186/10693286/HICP_lifting_lockdown_measures_guidance.pdf

As a result of the pandemic, consumer spending patterns have changed. To capture this, the HICP weights for 2021 were compiled using preliminary quarterly consumer expenditure data for 2020 from the national accounts, complemented with additional data for 2020 from other sources, such as short-term statistics on retail trade and services. This is in line with Eurostat's recommendations, which are available at:

<https://ec.europa.eu/eurostat/documents/10186/10693286/Guidance-on-the-compilation-of-HICP-weights-in-case-of-large-changes-in-consumer-expenditures.pdf>

The HICP weights for 2021 show that, compared to the previous year, the divisions to witness the highest increase in weight in absolute terms were Food and Non-alcoholic Beverages and Housing, Water, Electricity, Gas and Other Fuels, while Restaurants and Hotels and Recreation and Culture registered the largest decline in weight.

6.2 Reassessments / revisions

The HICP series is published with base year 2015 according to the latest Eurostat base year revisions as explained through the following link:

<https://ec.europa.eu/eurostat/documents/272892/10977288/HICP+reference+year+2015%3D100/>

Note that the RPI series is published in accordance to the reference base December 2016.

6.3 Time series

Data from 1996 onwards is accessible through the following link:

http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=prc_hicp_midx&lang=en