

CONSUMER PRICE INDEX (CPI)

What is the Consumer Price Index (CPI)?

The CPI is an indicator of the change in the average retail prices of a fixed basket of goods and services commonly purchased by households relative to a base year.

What are the uses of CPI?

The CPI is most widely used in the calculation of the inflation rate and purchasing power of the peso. It is a major statistical series used for economic analysis and as a monitoring indicator of government economic policy.

The CPI is also used to adjust other economic series for price changes. For example, CPI components are used as deflators for most personal consumption expenditures (PCE) in the calculation of the gross national product (GNP). Another major importance of the CPI is its use as basis to adjust wages in labor management contracts as well as pensions and retirement benefits. Increases in wages through collective bargaining agreements use the CPI as one of their bases.

How is the CPI computed?

The CPI is computed using the weighted arithmetic mean of price relatives, a variant of Laspeyres formula with fixed base year period weights.

a. Base Period. This is a reference date or simply a convenient benchmark to which a continuous series of index numbers can be related, (and has no numerical significance). Since the CPI measures the average changes in the retail prices of a fixed basket of goods, it is necessary to compare the movement in prices in the current year to movements in previous years back to a reference date at which the index is taken as equal to 100.

The base period is a year. A month is deemed unwise to use as a base period because it often reflects accidental or seasonal influences.

The present series uses 2006 as the base year. The year 2006 was chosen as the base year because it is the year when the Family Income and Expenditure Survey (FIES) was conducted. The FIES is the basis of the CPI weights. It is also in accordance with the National Statistical Coordination Board Resolution Number 2, Series of 2009, which approves the synchronized rebasing of the price indices to base year 2006.

b. Market Basket. Since it is virtually impossible to have periodic measures on the changes in the prices of all the thousands of varieties of goods purchased for consumption and services availed of by households in the country, a sample of these items, known as the 'CPI market basket', was selected to represent the composite price behavior of all goods and services purchased by consumers.

The market basket used in the construction of the 2006-based CPI for all income households combines the baskets of the upper 70% and bottom 30% income group households drawn from the results of the 2007-2008 Commodity and Outlet Survey (COS). The COS is a nationwide survey of households undertaken by the former National Statistics Office (NSO) now Philippine Statistics Authority (PSA). This is conducted for the purpose of gathering data on commodities and services that a family purchased/ consumed/availed of most of the times and the type of outlets where these commodities/services were purchased/availed of within the country.

There are 82 provincial market baskets including the National Capital Region (NCR) and the cities of Isabela and Cotabato.

c. Weighting System. A desirable system that considers the relevance of the components of the index. For the CPI, the weighting pattern uses the expenditures on various consumer items purchased by households as a proportion to total expenditure.

The weights of the eleven COICOP divisions used in the computation, which were derived from the 2006 FIES of the CPI are shown in the following table.

Weights by Commodity Group for CPI (2006=100)

Division	PHILIPPINES	NCR	AREAS OUTSIDE NCR
00. ALL ITEMS	100.00	23.79	76.21
01. FOOD AND NON-ALCOHOLIC BEVERAGES	38.98	6.78	32.20
02. ALCOHOLIC BEVERAGES AND TOBACCO	2.00	0.33	1.66
03. CLOTHING AND FOOTWEAR	2.95	0.74	2.22
04. HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS	22.47	6.97	15.49
05. FURNISHING, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE	3.22	0.84	2.38
06. HEALTH	2.99	0.64	2.35
07. TRANSPORT	7.81	1.86	5.95
08. COMMUNICATION	2.26	0.71	1.55
09. RECREATION AND CULTURE	1.93	0.50	1.43
10. EDUCATION	3.36	0.76	2.61
11. RESTAURANT AND MISCELENEOUS GOODS AND SERVICES	12.03	3.66	8.37

d. Geographic Coverage. CPI values are computed at the national, regional, and provincial levels, and for selected cities. A separate CPI for NCR is also computed.

e. Classification Standards. The 2006 CPI series is the first in the CPI series that used the 1999 United Nations Classification of the Individual Consumption According to Purpose (COICOP) in determining the commodity groupings of the items and services included in the market basket. For the geographic classification, the CPI follows the 2015 Philippine Standard Geographic Classification Codes.

What is the inflation rate?

The inflation rate is the annual rate of change or the year-on-year change of the CPI expressed in percent. Inflation is interpreted in terms of declining purchasing power of money.

