

Solomon Islands Government



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HONIARA CONSUMER PRICE INDEX (CPI)

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COMMENTARY

Headline CPI

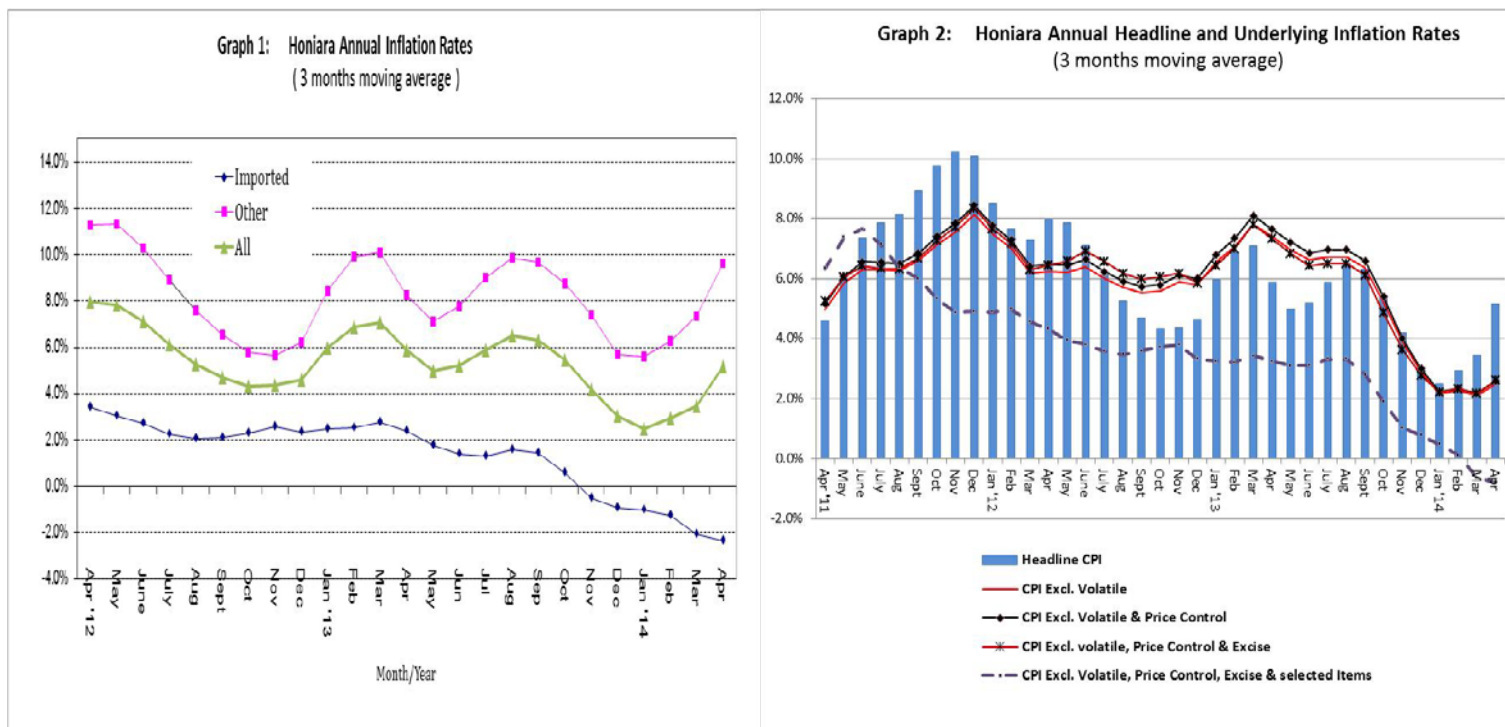
The Honiara Consumers Price Index (CPI) for the month of April 2014 rose significantly by 4.0% from a revised 185.0 in March to 192.3. This is the highest change in index recorded since mid-2008. This was largely driven by domestic price movements, in particular, increases in the prices of local food, mainly fresh fruit and vegetables at the Honiara market, betel nut and fuel prices. The latter reflects the slight rise in the imported price index although the general trend in import price movements continues to show a general decline.

The Food sub-index recorded the highest change with a significant increase in index by 9.5% to 186.9. This was due to significant increases in nearly all prices of local fruits and vegetables, and root crops at the Honiara market such as: cassava (26.3%), kumara (41.5%), ripe bananas (49.4%), pawpaw (30.5%), melon (39.4%), cucumber (81.9), bush cabbage (115.5%) and tomatoes (67.9%). These outweighed the only decline in prices recorded for local peanuts (-17.1%) whilst other prices of food items remained generally stable resulting in the rise of the overall Food sub-index.

Changes in other sub-indexes were as follows:

- A revision to the Housing and Utilities sub-index resulted in a 0.5% increase due to the updating of the service and tariff charges from SIWA and SIEA revised back to January, 2014.
- Drinks & Tobacco was slightly up by 2.0% driven by a 0.5% increase in the price of betel nut.
- Transport and Communication was slightly up by 0.3% due to an increase of 1.5% and 0.5% in the prices of petrol and diesel respectively.

The overall annual headline inflation rate for the month of April 2014, calculated on a 3 months moving average basis was 5.2%, up 1.8 of a percentage point from the previous month. The corresponding inflation rates for imported and other items were -2.4% and 9.6% respectively.



Underlying Inflation

The main underlying rates of inflation based on a 3 months moving average for the month of April 2014 were recorded at 2.6% and slightly lower, about half the size below the headline inflation rate. All measures except for the measure excluding volatile, price controlled, excise and other selected items were observed between 2.5% and 2.6%, an increase of 0.4 percentage points respectively from the previous month.

Table 4. THE HONIARA CONSUMER PRICE INDEX BY GROUP (4th Qtr 1992 = 100)

Year/ Qtr/ Month	Food	Drinks & Tobacco	Clothing & Footwear	Housing & Utilities	Household Operations	Transport & Commu-nications	Recreation health & Oth. Serv.	Misce-llaneous	All Items	(%) Change		
(Spliced Series)												
2011	Qtr 1	498.1	508.4	198.5	616.6	452.9	573.9	429.8	383.7	487.5	4.3	
	Qtr 2	518.3	562.9	197.7	632.8	453.6	586.3	430.9	382.6	502.7	3.1	
	Qtr 3	522.4	556.7	197.9	657.4	457.8	579.4	430.9	381.4	507.3	0.9	
	Qtr 4	522.3	558.1	199.3	704.9	461.0	573.0	430.6	388.5	514.3	1.4	
2012	Qtr 1	534.5	569.8	201.0	711.2	464.9	569.7	454.7	405.4	523.1	1.7	
	Qtr 2	551.2	560.2	201.4	755.3	470.5	580.1	454.7	412.6	538.5	2.9	
	Qtr 3	538.3	545.8	201.3	756.8	466.1	569.3	454.7	424.7	531.1	-1.4	
	Qtr 4	528.0	598.2	202.3	804.8	456.2	582.6	459.0	424.6	538.1	1.3	
2013	Qtr 1	547.1	667.1	217.9	860.3	482.0	583.7	447.7	426.2	560.2	4.1	
	Qtr 2	564.1	613.8	218.0	866.1	484.5	586.7	447.7	428.2	566.5	1.1	
	Qtr 3	562.8	606.5	219.2	863.5	483.5	582.3	447.7	428.1	564.6	-0.3	
	Qtr 4	544.2	634.7	220.6	855.3	482.1	589.0	447.7	425.8	557.6	-0.7	
2014	January	527.4	920.8	227.7	877.2	481.9	591.8	458.6	426.1	568.7	3.0	
	February	538.5	925.5	227.7	943.4	487.0	592.5	458.6	426.1	584.2	2.7	
	March	540.2	934.5	227.7	943.6	487.2	595.0	458.6	425.3	585.7	0.3	
	April	591.7	936.5	227.7	948.3	487.2	596.9	458.6	425.3	608.8	4.0	
Percentage Change in the CPI by Group												
<i>12 months moving average on same period a year ago</i>												
2012	April	7.3	16.2	0.7	19.2	3.5	2.7	3.8	4.5	8.5		
	May	7.4	13.6	0.8	19.5	3.2	2.1	4.0	4.7	8.4		
	June	7.4	11.4	0.9	19.7	3.1	1.5	4.2	5.2	8.3		
	July	7.2	9.1	1.1	19.3	2.8	1.1	4.4	5.7	8.0		
	August	6.7	7.9	1.2	19.0	2.8	0.6	4.6	6.4	7.7		
	September	6.1	6.2	1.3	18.8	2.7	0.0	4.8	7.3	7.2		
	October	5.4	4.8	1.5	17.8	2.5	-0.4	5.1	8.0	6.7		
	November	4.8	4.2	1.6	16.9	2.1	-0.5	5.5	8.8	6.3		
	December	4.4	4.0	1.6	15.9	1.8	-0.5	5.9	8.5	5.9		
	2013	January	4.4	4.1	2.3	16.5	1.8	-0.2	5.2	8.3	6.1	
		February	4.0	5.1	2.8	16.9	2.0	0.1	4.6	8.3	6.1	
		March	3.2	5.5	3.4	17.4	2.0	0.3	4.0	8.4	5.9	
April		2.6	5.8	3.9	17.0	2.0	0.5	3.4	8.2	5.6		
May		2.1	7.3	4.5	16.6	1.9	0.7	2.8	7.8	5.4		
June/r		2.2	8.0	5.0	16.2	1.9	0.9	2.2	7.3	5.4		
July/r		2.3	9.5	5.6	16.2	1.9	1.0	1.6	6.6	5.5		
August		2.4	10.4	6.1	16.2	1.9	1.6	1.0	5.7	5.7		
September		2.6	11.3	6.8	15.9	2.3	1.9	0.4	4.7	5.8		
October		2.8	12.5	7.4	15.1	2.8	1.9	-0.3	3.6	5.8		
November		2.9	12.1	8.0	14.3	3.4	1.8	-1.0	2.7	5.6		
December		2.6	12.1	8.6	13.7	4.0	1.8	-1.8	2.5	5.4		
2014	January	2.1	14.3	8.3	12.0	3.7	1.8	-1.4	2.2	4.9		
	February	1.7	15.9	7.9	11.1	3.4	1.7	-1.1	1.7	4.6		
	March	1.5	18.5	7.6	10.3	3.2	1.6	-0.8	1.2	4.5		
	April	1.9	21.8	7.3	9.8	3.0	1.5	-0.5	0.7	4.7		

Table 5. HONIARA CPI AND MEASURES OF UNDERLYING INFLATION (4th Qtr 2005=100)

Year/ Month	Headline CPI	Measures of Underlying Inflation (Exclusion Based)				
		I. Excl. Volatile Items	II. Excl. Volatile Items & Price Control	III. Excl. Volatile, Price Control & Excise	IV. Excl. Volatile, Price Control, Excise & Other Selected Items	
	<i>Wght</i>	<i>1000</i>	<i>848</i>	<i>803</i>	<i>766</i>	<i>540</i>
2012	April/r	171.4	164.0	167.3	167.1	164.4
	May	170.5	164.2	167.5	167.3	164.5
	June	168.3	164.5	167.9	167.7	164.9
	July	168.4	164.6	168.0	167.8	164.8
	August	167.5	165.0	168.4	168.2	165.4
	September	167.4	166.0	169.4	169.2	166.9
	October	169.6	168.3	171.9	171.9	166.4
	November	170.1	169.6	173.2	172.2	166.8
	December	170.2	168.7	172.4	171.2	165.5
2013	January	175.6	173.2	177.0	176.1	167.9
	February	177.3	174.3	178.3	177.4	169.6
	March	177.9	174.5	178.4	177.6	169.5
	April	179.0	174.6	178.6	177.6	169.1
	May	178.5	174.9	178.9	178.0	169.5
	June	179.3	175.7	179.8	178.7	170.5
	July	179.3	175.8	179.8	178.8	170.5
	August	178.3	175.8	179.8	178.8	170.5
	September	177.4	175.5	179.5	178.5	170.1
	October	176.3	174.0	177.9	176.7	167.6
	November	174.6	173.9	177.8	176.6	167.5
	December	174.4	173.5	177.4	176.2	167.4
2014	January	179.6	175.2	179.2	178.1	167.6
	February	184.5	179.3	183.5	182.6	168.5
	March	185.0	178.5	182.7	181.8	167.7
	April	192.3	178.8	183.0	182.1	168.0
Percentage Change: on the same month a year ago						
2012	April	8.1	6.5	6.7	6.8	3.9
	May	7.1	6.2	6.5	6.9	3.7
	June	6.1	6.5	6.7	7.1	3.8
	July	5.1	5.3	5.5	5.7	3.2
	August	4.6	5.3	5.5	5.8	3.4
	September	4.3	6.0	6.2	6.5	4.2
	October	4.0	5.5	5.7	6.0	3.6
	November	4.7	6.2	6.5	6.1	3.6
	December	5.1	5.7	5.9	5.5	2.7
2013	January	8.1	7.8	8.1	7.8	3.4
	February	7.4	7.8	8.1	7.8	3.5
	March	5.8	7.9	8.2	7.9	3.4
	April	4.4	6.5	6.7	6.3	2.8
	May	4.7	6.5	6.8	6.3	3.1
	June	6.5	6.8	7.1	6.6	3.4
	July	6.5	6.8	7.0	6.6	3.5
	August	6.5	6.6	6.8	6.3	3.1
	September	6.0	5.8	6.0	5.5	1.9
	October	3.9	3.3	3.4	2.8	0.7
	November	2.7	2.5	2.6	2.6	0.4
	December	2.5	2.8	2.9	2.9	1.1
2014	January	2.3	1.2	1.2	1.1	-0.2
	February	4.1	2.8	2.9	3.0	-0.7
	March	4.0	2.3	2.4	2.4	-1.1
	April	7.4	2.4	2.5	2.5	-0.6
Percentage Change: 3 months moving average on same period a year ago						
2012	April	8.0	6.3	6.5	6.4	4.3
	May	7.8	6.2	6.4	6.6	3.9
	June	7.1	6.4	6.6	6.9	3.8
	July	6.1	6.0	6.2	6.6	3.6
	August	5.3	5.7	5.9	6.2	3.5
	September	4.7	5.5	5.7	6.0	3.6
	October	4.3	5.6	5.8	6.1	3.7
	November	4.4	5.9	6.1	6.2	3.8
	December	4.6	5.8	6.0	5.8	3.3
2013	January	6.0	6.6	6.8	6.4	3.2
	February	6.9	7.1	7.3	7.0	3.2
	March	7.1	7.8	8.1	7.8	3.4
	April	5.9	7.4	7.6	7.3	3.2
	May	5.0	7.0	7.2	6.8	3.1
	June	5.2	6.6	6.9	6.4	3.1
	July	5.9	6.7	7.0	6.5	3.3
	August	6.5	6.7	7.0	6.5	3.3
	September	6.3	6.4	6.6	6.1	2.8
	October	5.4	5.2	5.4	4.9	1.9
	November	4.2	3.9	4.0	3.6	1.0
	December	3.0	2.9	3.0	2.8	0.8
2014	January	2.5	2.2	2.2	2.2	0.5
	February	3.0	2.3	2.3	2.3	0.1
	March	3.4	2.1	2.2	2.2	-0.6
	April	5.2	2.5	2.6	2.6	-0.8

DESCRIPTION	COMPARATIVE PRICES OF SELECTED												
	2011 Year	2012 Qtr 1 Qtr 2 Qtr 3 Qtr 4				2013 Qtr 1 Qtr 2 Qtr 3 Qtr 4				2014 Jan Feb Mar Apr			
FOOD													
RICE (Solrais: 20kg Bag)	173.27	168.56	167.44	168.72	166.33	174.12	174.12	174.12	174.17	173.33	175.00	171.50	171.50
NOODLE (Maggi: 85g pkt)	3.04	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
FLOUR (plain white flour: 25kg bag)	195.21	195.78	192.11	192.11	190.44	189.44	189.43	189.57	189.22	188.50	188.50	188.50	188.50
CHICKEN WING (imported, 500g pkt)	38.25	49.00	53.00	54.67	55.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
TUNA (second grade Taiyo: 180g can)	5.46	5.06	5.22	5.50	5.33	5.52	5.52	5.52	5.50	5.17	5.17	4.92	4.92
KUMARA HEAPS (\$/kg)	4.10	4.68	4.56	4.34	3.90	3.67	3.67	3.70	3.63	3.67	4.60	4.26	6.03
SLIPPERY CABBAGE \$/kg	6.72	7.31	9.61	8.73	6.25	9.70	9.69	9.81	9.58	8.10	9.04	10.19	21.95
WHITE SUGAR (Chelsea, 500gm pkt)	8.13	8.28	8.00	7.72	7.44	7.18	7.18	7.19	7.16	6.97	6.97	6.72	6.72
SALT (Sky salt, 1kg,)	4.67	4.58	4.58	4.69	4.75	5.40	5.40	5.39	5.39	5.30	5.30	5.22	5.22
DRINKS & TOBACCO													
SOLBREW BEER (Solbrew, 355ml bottle)	9.25	9.58	9.75	9.83	10.00	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
TWIST TOBACCO (per stick)	19.13	19.67	19.58	19.75	19.35	20.80	20.80	20.80	20.80	20.80	20.80	20.80	20.80
UTILITIES													
WATER CHARGES (500gal)	80.52	111.77	111.77	111.77	156.66	172.66	172.66	172.71	172.25	180.25	219.24	219.24	219.47
ELECTRICITY (40 units)	225.33	232.77	277.80	277.80	249.74	263.63	263.62	263.73	262.81	278.74	278.74	278.74	279.36
TRANSPORT & COMMUNICATION													
PETROL (cents per litre)	1178.78	1091.33	1183.50	1067.67	1114.50	1080.13	1080.05	1080.65	1078.67	1079.50	1085.00	1109.00	1126.00
TELEPHONE CHARGES (per call, within 1	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
MISCELLANEOUS GOODS & SERVICES													
BATH SOAP (Giv. 85g cake)	2.53	2.69	2.89	2.90	2.91	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
TOOTHPASTE (Colgate: 110g)	18.89	18.82	18.82	20.87	20.80	20.80	20.80	20.80	20.80	20.80	20.80	20.80	20.80

Background

1. The aim of constructing measures of underlying inflation is to provide supplementary measures to the headline consumer price index (CPI) in analyzing inflation and related movements of the CPI in the Solomon Islands. The CPI measures price changes of a selected basket of goods and services that currently represent the spending behavior of the Honiara (country proxy) urban selected population. Inflation calculated from the headline CPI is referred to as headline inflation.
2. Price movements in the CPI can be highly influenced by internal and external shocks attributed mainly to volatility associated with seasonal effects (e.g., weather patterns, Christmas festive periods etc), irregular fluctuations (e.g., varying changes in consumer behavior, government policy decisions etc) and external factors (e.g., changes in global energy prices etc). These factors hinder analysis and interpretation of the current headline inflation and in forecasting future inflation.
3. The underlying inflation (or the underlying rate of inflation) measure attempts to isolate the effects of the price shocks in inflation while retaining persistent movements. Such a measure is more useful than the headline inflation for purposes of analysis such as in developing and monitoring monetary and fiscal policies.
4. The exclusion based approach is the method applied in deriving the underlying inflation measures. Whilst there are various methods of constructing underlying inflation measures, two initial approaches namely the (a) trimmed mean approach and (b) exclusion based method were discussed with a number of key agencies such as the Central Bank, the Australian Bureau of Statistics (ABS) and the IMF. The former approach was not suitable as it required detailed analysis of the data and seasonal adjustment. Otherwise, the resulting measure would be biased towards ‘no change’. For example, prices which move only once a year are always trimmed out. The exclusion approach was applicable in the context of the focus tailored towards removing price shocks, particularly isolating the effects of the most volatile (in terms of price change) items experienced by the country so as to better meet analytical purposes.
5. Analysis of prices were based on subjective assessments incorporating local knowledge and graphical observations of the time series behavior of the prices of individual items at the detailed level other than undertaking any detailed empirical analysis. The latter studies are necessary in the future to further support the current approach and decisions taken. Note that other techniques (e.g., ARIMA 11) relating to the specific treatment of seasonal adjustments can be applied separately by the user.
6. The underlying rates of inflation are published on a trial or experimental basis and are subject to change depending on new data and on-going revisions where necessary.
7. This issue of Statistical Bulletin 1/2014 introduces the measures of underlying inflation together with the November – December, 2013 CPI figures.

Measures of Underlying Inflation

8. There are four proposed underlying measures of inflation categorized as follows:
 - I. **All CPI excluding Volatile Items:** *Fruit and Vegetables + Fresh seafood + Betel nut + Motor vehicle fuel (petrol & diesel) + Fuel for household utilities (kerosene)*
9. Items that are most volatile are excluded. This measure includes the majority of items within the subgroup of local fruit and vegetables, and betel nut that are predominantly affected by seasonal

factors. Although fresh meats such as domestically prepared chicken wings are assumed to be highly volatile, there was no strong evidence of this. Fresh sea food consisted mainly of coral fish and bonito. It was noted that the formal collection of the prices for bonito fish was temporarily suspended due to inconsistent selling practices by sellers (prices per kg/pound versus price/physical size etc) impacting on consistency of actual price assessments and product specifications. In addition, the buying and selling of bonito within the specified outlet usually takes place after normal working hours. This has also restricted the formal collection of prices during working hours by SINSO staff. The SINSO is currently progressing suitable techniques to adjust for such cases. However, indirect price observations monitored by the SINSO imply that bonito prices are highly volatile.

10. Motor vehicle fuel includes automobile petrol and diesel. Moreover, although it was assumed that price movements of specific clothing would be highly volatile, there was no strong evidence of this, as was the case with other assumed volatile items such as milk, bread etc. Fuel for household utilities consists of kerosene.

II. All CPI excluding Volatile Items and Price Control Items: *First Grade Taiyo can fish + Bus fares + Taxi fares*

11. First Grade Taiyo canned fish, Buss fares and Taxi fares are effectively direct price control items whose prices are fixed and thus are excluded. It is noted that in the case of the Tuna Taiyo (second grade) canned fish, there was evidence that even though the actual prices shown in a number of the listed shops were fixed, prices in a few number of listed shops were not. These caused variations in the average price of Tuna Taiyo (second grade) canned fish and thus the item was not excluded at this stage. This item is considered in the fourth proposed underlying measure discussed below as part of the other selected items.

12. Although the Price Control Act (Chapter 64) stipulates price controls for certain goods and services, their corresponding prices are not actually fixed. It is obvious that the margins set on their prices are fixed but not their actual prices. It should be noted that even if some of the actual prices of aforesaid excluded items vary in some outlets, they are neither part of the CPI basket nor listed as a registered CPI outlet.

III. All CPI excluding Volatile, Price Control and Excise Items: *Alcohol + Tobacco*

13. The excise items excluded are alcohol and tobacco which includes cigarettes. Arguments against excluding excise items unless there are highly volatile have been considered earlier in the first proposed underlying measure (I).

14. There was further concern that excise items should not be excluded simply because they are subject to some form of tax (excise, sales, VAT etc). This was because the effects of any specific change in tax rates can be adjusted from the index whilst simultaneously allowing price change to remain. In the context of the Solomon Islands, and since the reform efforts after 2003, numerous changes to tax and customs acts relating to excise items have eventuated whose effects have impinged on price movements in the CPI over time. Whilst it would be inconsiderate for concerned authorities not to adjust for any changes in tax rates, in the mean time, this measure provides an alternate choice to the user to decide if it would be useful for their purposes.

IV. All CPI excluding Volatile, Price Control, Excise Items and Other Selected Items

15. Apart from the price control and excise items, the other selected category includes goods and services whose prices are often impacted by price regulatory effects or policy changes (e.g., school fee subsidies, reforms to tariff charges of state own utilities etc). These items include house rent (public service), telephone charges, electricity and water, 3rd party insurance, transport fares and education. As noted earlier, Tuna Taiyo (second grade) canned fish is included due to the

government price control on the item. However, at this stage, this regulation has not been fully adhered to by a number of retail outlets and consumers.

Implications on Sample and Weights

16. To ensure proper scrutiny and robustness of the measures, an analysis of the implications of the underlying inflation measures on the sample (CPI basket) and weights were undertaken. Some of the observations and arguments are noted below.

17. The table below shows the underlying CPI by subgroup, number of items and corresponding weights. Note that the total CPI basket consists of 187 items and that totals in the table could slightly vary due to rounding of decimal points.

Underlying CPI Item Subgroup	No. of Items	(%) of CPI basket	Relative Weight (% of CPI)	Relative Weight (% of Underlying CPI)
1. Volatile Items (V)	26	14	15	33
2. Excise Items (E)	6	3	4	8
3. Price Control Items (PC)	4	2	5	10
4. Other Selected Items (OS)	16	9	23	49
5. All Ex. Items: Underlying CPI	52	28	47	100
1. (V)	26	14	15	33
2. (V)+(E)	32	17	19	41
3. (V)+(E)+(PC)	36	19	24	51
4. (V)+(E)+(PC) + (OS)	52	28	47	100

18. The reduction in sample size and corresponding weights as items get excluded from the CPI basket would impact on the quality of the sample to generate efficient estimates and impinge on the relative importance of the underlying inflation measures. For the first proposed underlying measure (CPI excluding (V)), the table shows that volatile items (V) represent 14% of the basket and 15% of the total CPI weight. This implies that the underlying measure (CPI excluding (V)) retains 86% of total CPI basket and 85% of the CPI weight. This suggests that the underlying inflation measure is reliable.

19. In the second proposed underlying measure (CPI excluding (V) + (E)), the items consisting of the combined (V + E) make up 17% of the basket with a combined weight of 19%. This suggests that the underlying measure continues to retain 83% of the basket of items with a close to similar size in weight. Hence, the underlying inflation measure is reliable.

20. For the third proposed underlying measure (CPI excluding (V) + (E) + (PC)), it is evident that a combined number of items constitute of 19% of the basket with a combined weight of 24%. This means that the underlying measure retains 81% of the basket representing a weight of around 76% suggesting that the measure is reliable.

21. In terms of the fourth proposed underlying measure (CPI excluding (V) + (E) + (PC) + (OS)), the combined items consist of 28% of the basket with a combined weight of 47%. This measure represents 135 (i.e., 187-52) items. This means that the underlying inflation measure retains 72% of the basket and 53% or slightly over half the total weight suggesting that the underlying measure is not significantly unreliable. This is despite the significant loss in weight that shows the relative importance of the (OS) items.

22. The above considerations show that the proposed four underlying inflation measures are reliable. However, of concern is the diminishing weight of what remains and the implications if one considers the weight as a proportion of consumer expenditure. This would imply the exclusion of a greater proportion of consumer expenditure as the weight of the excluded items increase. This could also be deemed as reducing the importance (to the Consumer) of the index. The SINSO notes this and to mitigate any perceived weakness due to this, the SINSO plans to publish additional separate indexes in the future such as volatile items and non-volatile items, excise and non-excise items etc to bring greater clarity and transparency to the users.

Future Considerations

23. Given that the proposed underlying measures are published on a trial basis, the SINSO would continue to improve the measures as new data is received such as the data from the Household Income and Expenditure Survey (HIES) 2012-2013 that is currently been finalized. Work will also be ongoing to investigate alternative methods for constructing underlying inflation, undertake empirical analysis, address product quality and specification issues, and publish additional information for users where necessary.