

# Present challenges facing Icelandic CPI/HICP

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# Background

- Severe international financial crises
- The Icelandic banks were too big for the economy, 12 x GDP => crash of the financial system
- The price of foreign currencies has increased 75% in twelve months =>
- High inflation (HICP Oct-Oct: 17.9%!)



# Methodological problems HICP

- Unobservable prices
- Reduced sample of outlets due to shutdowns
- Prices expressed in other currency than Icelandic Krona
- Fear of difficulties in the price collection
- Sudden change in consumption pattern



# Experiences so far

- Unobservable prices:
  - No significant change in the number of missing prices, not yet a problem
    - Will be monitored monthly
  - Cars (7.2% of HICP weight):
    - Salesdata on cars shows that sales have almost stopped.
    - List prices in October showed 4.1% price increase
    - Not realistic as there is no trade with new cars
    - Statice decided to keep September prices unchanged. (effect on the CPI -0.3%).



# Experiences so far

- **Shutdowns already a problem in the outlet sample for clothing and footwear:**
  - 10% of the sample (6 stores) closed down
  - Items in these stores dropped out of the index
  - Except in case of sales prices: Those were moved back to presales level (will be dropped out next month)
  - Price changes in the remaining outlets in the sample used
  - How to resample in the current situation?
- **Prices expressed in other currency:**
  - Did not occur now in the sample



# Experiences continued

- Fear of difficulties in the price collection
  - Price collectors instructed before the price collection took place, no problems occurred
- Sudden change in consumption pattern
  - HICP rebased next December
    - HES 2004-2006.
    - Cars subgroup revised, based on 2008 sales data
    - Other groups examined using available sources

