



## UNDERSTANDING THE CURRENT CPI

**THE CONSUMER PRICE INDEX (CPI)** is a "statistical measure of the changes in average retail prices of commodities bought by a specific group of consumers in a given area during a given period of time". This index is prepared by the National Statistics Office (NSO) for each commodity group on monthly and regional bases to closely monitor price

### **Improving the CPI series**

The first index was constructed in 1945 specifically for Manila and was called the Cost of Living Index. Over the years, there were efforts to improve the procedures for constructing the index with the end in view of capturing consumer behavior more realistically.

As early as 1964, the concept of weights was introduced. Weights were attached to each commodity to determine its relative importance in the market basket. The weights were derived from the Family Income and Expenditures Survey (FIES) of the NSO.

In 1970, the CPI coverage was expanded from low-income families in Manila to all income households for all regions. More varieties of items were also brought into the market basket owing to regional peculiarities.

The current CPI has 1988 as the base year. Across regions, the average number of items varied from 361 (CAR) to as many as 442 (Region IX). The weights used were derived from the 1988 FIES.

### **CPI: The need for it**

The CPI is important because of its usefulness in economic analysis. **As an indicator of economic performance.** The CPI is a widely used measure of inflation (defined as the "process of continuously rising prices or equivalently of a continuously falling value of money"). As such, it provides detailed information on price movements.

This, along with other macroeconomic variables serves as indicator of economic performance / stability. This guides business and labor in formulating economic decisions. It is also viewed as an indicator of the effectiveness of government economic

policies and as guide in making sound forecasts.

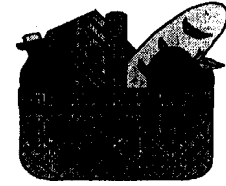
**As a measure of the standard of living.** The CPI is commonly used as an indicator in studying changes in the levels of living over time. It is used to deflate incomes to determine real monetary increments and losses. A related concept is the use of the CPI as deflator of the value of the peso to find its real purchasing power.

The purchasing power measures the change in the quantity of goods and services that can be bought by a peso at various points in time i.e. as prices increase, the purchasing power of the peso weakens.

**As a tool in the determination of wages and social security payments.** As inflation erodes the purchasing power of the peso, the CPI, among others, is used to estimate minimum wages and/or periodically adjust wages and other income payments like social security.

**As basis for studying patterns of consumer demand.** The CPI market basket is composed of frequently bought goods and services by a group of consumers. It reflects the spending patterns and preferences of consumers as inputs to the study of consumer demands.

## **The Market Basket**



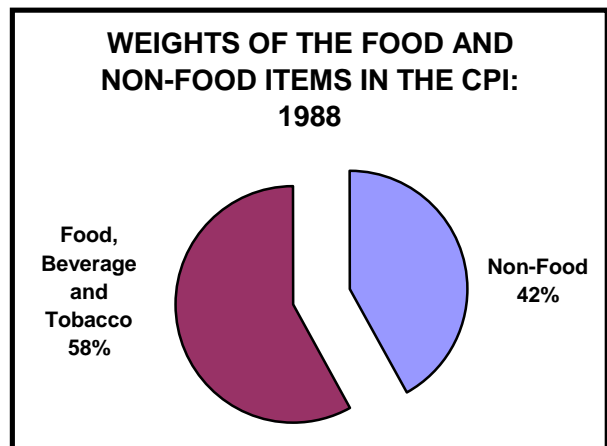
### **Components**

The 1988 CPI has 15 regional market baskets (NCR, CAR, ARMM and Regions I to XII). The average number of items in the regional basket vary because of different consumption patterns and consumer items available in the regions.

There are six (6) major commodity groups in the CPI market basket. These are Food, Beverages and Tobacco, Clothing; Housing and Repairs; Fuel, Light and Water; Services and Miscellaneous Items.

### **Weights**

Each commodity group has a unique weight attached to it.



Food is the most essential commodity. It accounts for more than half or has a weight of 53.5 percent,

consisting mostly of cereals (14.3%) of which, rice is 12.8 percent.

Other food items such as dairy products, eggs, fish, fruits and vegetables and meat each represents less than 10 percent of the market basket.

Expenditures on beverages and tobacco make up less than five percent of the consumer's total purchases.

Second to food, beverages and tobacco in importance are non-food consumer items with an aggregate weight of 41.5 percent. At least one-third of non-food purchases are on housing and repairs (13.3%) followed by educational/ medical / personal / recreational / transportation and communication services (10.9%). Utilities (fuel, light and water) and clothing, considered basic necessities, represent only 5.4 percent and 4.4 percent, respectively.

Across areas, NCR has the highest weight for food expenditures at 10.9 percent. Elsewhere, the food preference varied from less than one percent in the Cordillera Administrative Region (CAR) to 8.0 percent in Region IV.

It was only in NCR where non-food items other than beverages and tobacco were slightly more preferred than food items. Non-food items in NCR had an aggregate weight of 12.6 percent while in the rest of the country, the weights ranged from 0.7 percent in CAR and the Autonomous Region in Muslim Mindanao to 5.9 percent in Region IV.

## ***Gathering and processing price quotations***

### ***Who collects?***

The Bureau of Agricultural Statistics (BAS) collects price data for agricultural commodities in NCR and selected areas throughout the country. The NSO gathers price data for non-agricultural commodities nationwide as well as for agricultural commodities in areas not covered by the BAS.

### ***How are price data collected?***

Price quotations are collected through the Survey of Retail Prices. This survey is conducted through personal interviews from selected outlets like public markets, sari-sari and grocery stores and supermarkets.

There are 9,000 sample outlets nationwide from where price data are obtained. These were chosen based on the following criteria:

- ✓ Popularity of the outlet along the line of goods to be priced;
- ✓ Permanency of outlet;
- ✓ Consistency or completeness of stock; and
- ✓ Accessibility of outlet.

Once selected, an outlet becomes a permanent source of price data. It can only be changed or replaced for any of these reasons:

- × Closing of business; and
- × Disappearance of the item from the stock for more than three consecutive months or permanently.

### ***How frequent are price data gathered?***

In NCR, price data are collected monthly for most items in the market basket. For food items, price quotations are done weekly. Meanwhile, quotations for house rentals, wages (e.g. of carpenters and household helpers) and tuition fees are collected on a semestral basis i.e. at the beginning of each school semester.

Elsewhere, the Survey of Retail Prices is conducted simultaneously in all provincial capitals and cities where NSO provincial offices are located as well as in 600 selected municipalities.

In provincial capitals or cities, price data are collected twice a month i.e. during the first five working days and middle of the month. In other areas, price data are collected during the first five working days of the month.

### ***Who processes price data?***

The NSO provincial offices compute the provincial CPI. These preliminary figures are submitted to the NSO central office for review.

The NSO central office generates the final CPI figures for the national, regional and provincial levels. The results are usually available within one week after the reference month.

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