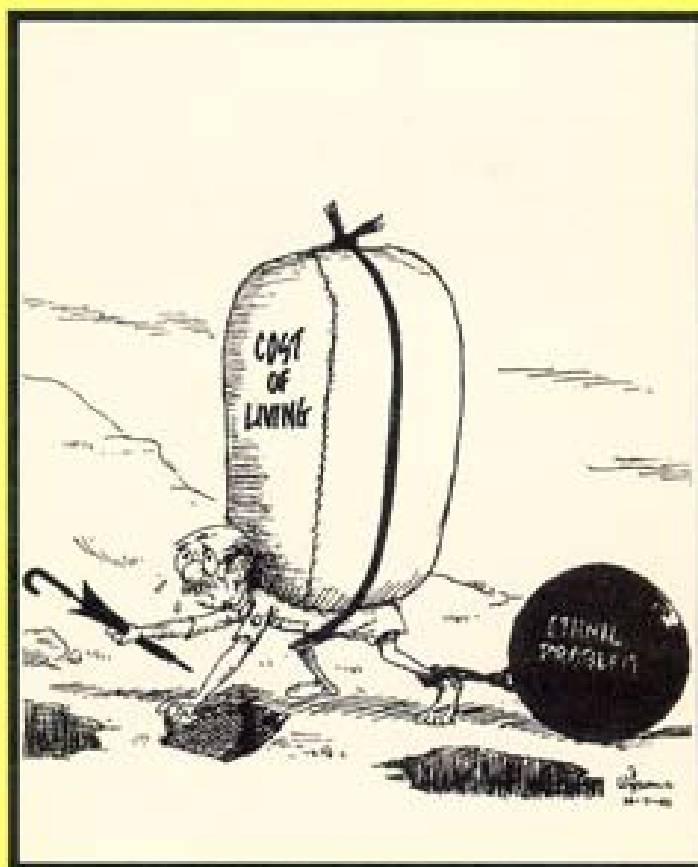


The Problems of Measuring Cost of Living in Sri Lanka



R. B. M. Korale



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Contents

List of Tables i

List of Charts ii

List of Abbreviations and Acronyms ii

Abstract..... iii

1. Introduction..... 1

2. Nature of CPI..... 2

3. History of CPI..... 5

 3.1 Colombo Consumers' Price Index 6

 3.2 Greater Colombo Consumers' Price Index 10

 3.3 Colombo District Consumer Price Index 11

4. Inflation Trends..... 11

5. Need to Replace the Current CPI..... 18

6. Issues and Problems 20

 6.1 Current Consumption Profile 21

 6.2 Base Period 22

 6.3 House Rent Excluded..... 22

 6.4 Index Weights 23

7. Conclusion..... 23

References..... 27

Abstract

Price statistics are important because they are used in analysing economic activities and in formulating economic policies. The Consumer Price Index (CPI) is the most widely used and best known measure of the changes in the cost of living and inflation. However, none of the currently compiled indices are reliable indicators of inflation in Sri Lanka.

The Colombo Consumers' Price Index (CCPI) and the Greater Colombo Consumers' Price Index (GCPI) are outdated and no longer representative as measures of inflation. The GDP deflator is not an independent indicator. There is, therefore, a need for a new index to serve as a general inflation indicator where the reference population is the entire population. The new CPI should be based on a specially designed Household Expenditure Survey (HES) that should be undertaken purely for designing weights for the CPI.

Only one state authority should be responsible for the compilation of the CPI and all aspects relating to data collection, compilation, processing of data to the release and publication of the CPI should be subject to confidentiality and statistical legislation. While the need for a new CPI has been accepted in principle, there has been no commitment on the part of users and the government to introduce one. However, the Department of Census and Statistics should set up a time table to revising the CPI.

1. Introduction

The Consumer Price Index (CPI) is the most widely used and best known measure of the changes in the cost of living or inflation. A consumer price index measures the changes in the general level of prices of a specified fixed basket of goods and services over time in relation to a given base period. The consumer price index is defined as a fixed quantity price index, and is a ratio of costs of purchasing a fixed set of items of constant quality and quantity in two different time periods. The CPI is also referred to as a cost of living index (COLI) especially in studies undertaken a few decades ago but conceptually they are two different measures. The CPI is only an approximate measure of the full extent of the cost of living in the form of an index.

A cost of living index number measures the relative change in the amount of money required to maintain a level of utility or standard of living of a designated group or class of persons in two different time periods. However, for the reference population to maintain the same standard of living, it is obviously not necessary to consume the same amounts of the same collection of goods and services that were consumed in the first time period. As such, changes in the collection of goods and services and the amounts of each item consumed can be consistent with an unaltered standard of living. Such changes occur in response to changes in individual tastes and the availability of different goods and services. Thus, there are practical difficulties involved in the direct measurement of the cost of living and construction of such indices for different time periods. Most importantly, separate surveys are required to compute the quantities and values for each time period. Hence the conduct of such complex surveys would be time consuming and timely results will not be available for the compilation of indices.

In practice, a consumer price index is accepted as a practical approximation to a cost of living index. “Some countries, above all the U.S.A., refer to the cost of living index (COLI) as the target concept for a consumer price index. In a COLI the costs for obtaining the same consumer utility (standard of living) in two price situations are compared. A COLI could be approximated by a so called superlative index, e.g., Fisher index. Since the consumer is able to switch from items or outlets which have become relatively more expensive to those that have become relatively cheaper, a COLI generally gives a lower result than a fixed weight index defined above. This difference is called the substitution bias of the fixed weight index,...in relation to a (COLI)” (Dalen, 1998 p.85). These practical difficulties in constructing and regularly

updating the cost of living index has led to the popularization of the CPI as a good approximation of a COLI. The concept of cost of living is hardly used today.

This paper describes the consumer price indices that are currently compiled in Sri Lanka and discusses the problems associated with their construction and their limitations.

2. Nature and Uses of a CPI

The purpose of a consumer price index, as described in the ILO resolution on CPI, is to measure changes over time in the general level of prices of goods and services that a reference population acquire, use or pay for consumption. According to this concept, a CPI has the following components.

- a) Reference population
- b) Market basket and weights
- c) Sample outlets
- d) Base period
- e) Index method
- f) Price collection system

The reference population indicates the population that falls within the scope of the index and this target population should be clearly defined. The selected population for the index could be the low income group, the middle income group or all income groups taken together. The geographic coverage of the reference population may be restricted to the capital city for reasons of convenience and cost of compilation of price statistics on an on-going basis; or it could be extended to cover selected urban centres or all urban areas of the country.

A market basket is the term used to refer to a sample of goods and services that is used to represent all goods and services purchased or used by the reference population. Weight is a value attached to a commodity or group of commodities (or services) to indicate its relative importance in the market basket. The household consumption of the reference population disclosed through a well designed household expenditure survey (HES) is essential to determine the market basket and weights of the items for which prices will be collected. The sample outlets are markets or retail

sales establishments where prices of sample commodities are quoted. The same HES or another market outlet survey is necessary to select the sample of markets and retail outlets to price the items. The criteria for selecting market outlets are: popularity of an establishment along the line of goods to be priced; consistency and completeness of the stock; permanency of the outlet; and accessibility of the outlet.

The base period is the duration, usually a year at which the index is set to 100 and is the reference point of the index number series. The index method indicates the formula used in computing the index number. Usually the Laspeyres formula is used in computing the CPI and the CPI compiled in Sri Lanka is based on this formula.¹

¹ The consumer price index is defined as a fixed quantity price index, and is a ratio of the costs of purchasing a fixed set of items of constant quality and quantity in two different time periods. In this form of the consumer price index, the Laspeyres formula is used in the computation of the index. The formula is

$$L_{t,o} = \frac{\sum_{i=1}^n P_{it} Q_{io}}{\sum_{i=1}^n P_{io} Q_{io}} \times 100$$

Where P_{it} = is the price of the i^{th} item in the comparison period
 P_{io} = is the price of the i^{th} item in the base period
 Q_{io} = is the quantity of the i^{th} item consumed in expenditure base period

The above formula can be transformed as

$$L_{t,o} = \frac{\sum_{i=1}^n P_{io} Q_{io} \times \frac{P_{it}}{P_{io}}}{\sum_{i=1}^n P_{io} Q_{io}} \times 100$$

$$L_{t,o} = \frac{\sum_{i=1}^n \text{Value of item in base period} \times \text{Price relative}}{\sum_{i=1}^n \text{Value of item in base period}} \times 100$$

In computing the index, the base period value of each item is multiplied by the price relative and these are aggregated and divided by the base period weight and the resulting value is multiplied by 100 to arrive at the index figure.

It is equally important to establish and operationalize an efficient and reliable system for periodically collecting and recording prices of goods and services selected and included in the index. The quality of the price data is the crucial determinant of the reliability of the index. Therefore, it is essential to ensure that the prices obtained are actual transaction prices and are collected systematically at regular intervals. Standard methods for collecting and processing data should be developed and installed.

The CPI has many applications, which include the following:

a) General economic and social analysis and policy determination and review

The index most often used to measure inflation is the CPI. The inter-relationships that inflation has with unemployment, wages, interest rates, etc., make the CPI a useful tool in economic analysis and policy review and as a basis for redirecting fiscal and monetary policies, as well as trade and exchange rate policies. Inflation changes the distribution of income and results in the purchasing power of persons living on fixed incomes and wages and pensions not indexed, to fall proportionately. Similarly, there is a trade-off between inflation and unemployment (although other factors besides unemployment affect inflation) and the CPI has been used to study these and other issues.

b) Indexation of wages, salaries, pensions and social security benefits.

The indexation of wages and salaries in contracts of employment helps to avoid the need to renegotiate contracts when prices rise. The current CCPI has been extensively used in wage indexation. Many wage agreements have been entered into between the employees' organizations and employers, covering not only unskilled and skilled labour but also middle level technical and clerical occupations in a number of sectors. Some of these are tripartite wage agreements where the trade unions, employers and the Department of Labour have negotiated and initialled the agreements. Although the CCPI has been designated as an index covering working class groups it has been used as a general inflation index, in the absence of other acceptable indices for wage adjustments. The salaries of government employees have not been subject to revision on the basis of the movements of the CCPI from the beginning of the 1970s but the changes observed in the movement of the index have usually been taken into account in the revision of their salaries by Salaries Commissions appointed by the government.

- c) Establishing “real” changes such as in computing real wages from nominal wages or the relationship between money and the goods or services for which it can be exchanged, such as deflation of personal consumption expenditure (PCE) and other current value aggregates in national accounts.

CPI is used as a deflator to express value series in real terms, that is, to measure the change in the actual volume of transactions by removing effects of price changes. In practice, real wage rates applicable to occupations are usually estimated by deflating nominal wage rates by the CPI. For example, the currently available real wage rate series for workers in Wages Board Trades and government employees, have been derived by deflating the corresponding nominal wage rate index numbers using the CCPI. The CPI is the most relevant price index to consumers since it measures prices of goods and services directly purchased by them. Thus, the CPI is used as a deflator to derive constant value estimates of personal consumption expenditure in national accounts.

- d) Comparison of price movements for business purposes.

Since CPI compares the current cost of goods and services (that are in the basket), CPI is used as a yardstick for adjusting payments to keep pace with changing prices. CPI is one of the measures used in cost escalation clauses in contracts. Where cost escalation clauses are provided for in contracts for the supply of goods and services by firms, CPI has been used as a measure because it is readily available and, as an independent authority, is responsible for its compilation. Similarly, in the absence of better indicators, CPI is used as a measure in deciding upon the inflation factors where revaluation of fixed assets and stocks are undertaken for accounting purposes.

3. History of CPI

The consumer price indices (CPI) have been compiled in Sri Lanka for about 60 years, and the history of CPI dates back to the commencement of the Second World War in 1939. From about 1940 until 1952 two indices had been computed, the Colombo Working Class Index (CWCI) and an Estate Labour Index Number (ELIN). The first was constructed by the Department of Commerce and Industries until the establishment of the Department of Census and Statistics (DCS) in 1947, which was thereafter responsible for its computation. The ELIN was based on the results of a

budget survey of plantation workers conducted during the period July to September 1939. The Department of Labour was responsible for the compilation of the ELIN.

The CWCI was based on a household budget survey of 340 households conducted in the Colombo Municipality area during the period November 1938 to April 1939 (see Table 1). Altogether five separate group indices for the main groups comprising food, fuel and light, clothing, rent and miscellaneous group, and a consolidated index for all items had been computed and published monthly. An Official Committee appointed at the end of 1942 to investigate the basis on which payment of dearness allowance and government war bonus were paid, had recommended the revision of the index weights. The revised weights had been used in the computation of the index from then until 1952. The weights used after the revision are shown in Table 2. It is interesting to note that the weight for food in the CWCI was substantially lower at 52.4 per cent when compared with the weights used in subsequent indices, which were of the order of 62 per cent. The weights for house rents were higher at nearly 16 per cent (15.96). Until the end of 1952, the CWCI had been used for the purpose of determining the cost of living allowances (CLA) payable to government employees and the emoluments of certain sections of workers in industries that were governed by the Wages Board Ordinance other than workers in plantation industries.

3.1 Colombo Consumers' Price Index

The Colombo Consumers' Price Index (CCPI) which replaced the CWCI is based on a family budget survey conducted by the DCS in 1949-50 of 455 working class households in the Colombo Municipality. The expenditure data obtained from this survey were revalued at 1952 prices to determine the weights of the new CCPI which came into operation from the beginning of 1953 (see Table 2). The Laspeyres method is used in computing the index number. This index has been used since 1953 for wage indexation of workers engaged in industries including plantation workers covered by the Wages Board Ordinance. This index has also been used to determine allowances paid to government employees in the 1950s and 1960s and in tripartite wage agreements of employees covered by the Shop and Office Employees Act.

Expenditure Group	CWCI		CCPI 1952		UFBS 1958	
	Expd. Value	Weight	Expd. Value	Weight	Expd. Value	Weight
1. Food and drinks	27.64	52.40	113.42	61.23	161.03	62.19
2. Liquor, Tobacco and Betel and Arecanuts	3.31	6.27	13.46	7.26	18.42	7.12
3. Housing	8.42	15.96	11.32	6.11	14.06	5.44
4. Fuel and Light	3.31	6.27	8.06	4.35	10.50	4.05
5. Clothing and Foot wear	4.41	8.36	15.19	8.20	13.15	5.08
6. Personal Care and Health Services, Household Goods and Services	4.12	7.81	14.67	7.91	21.37	8.24
7. Transport and Communication	0.96	1.82	3.93	2.12	6.70	2.59
8. Miscellaneous	0.58	1.11	5.22	2.82	13.71	5.29
	52.75	100.00	185.27	100.00	258.94	100.00

Source: Report of the Committee to Revise Cost of Living Index - Sessional Paper XI of 1959.

Expenditure Group	CWCI 1938		CCPI 1952		GCPI 1989	
	Expd. Value	Weight	Expd. Value	Weight	Expd. Value	Weight
1. Food and drinks	27.64	52.40	125.17	61.89	1628.0	69.3
2. Liquor, Tobacco and Betel and Arecanuts	3.31	6.27	16.85	8.33	88.90	3.8
3. Housing	8.42	15.96	11.52	5.70	208.35	8.9
4. Fuel and Light	3.31	6.27	8.67	4.29	127.27	5.4
5. Clothing and Footwear	4.41	8.36	19.05	9.42	66.06	2.8
6. Personal Care and Health Services, Household Goods and Services	4.12	7.81	12.18	6.02	115.71	4.9
7. Transport and Communication	0.96	1.82	3.97	1.96	65.07	2.8
8. VIII. Miscellaneous	0.58	1.11	4.83	2.39	48.34	2.1
	52.75	100.00	202.04	100.00	2347.71	100.0

Source: Report of the Committee to Revise the Cost of Living Index – Sessional Paper XI of 1959 and GCPI Technical Report.

The prices for items included in the CCPI are collected by officers of the DCS from the Colombo Municipality markets of Pettah, Maradana, Grandpass, Dematagoda,

Borella, Wellawatta and Kirillapona. These prices are collected 4 times each month from outlets located within each of the market areas including cooperative stores. The prices collected are the transaction retail prices. Test purchases are carried out to scrutinize the accuracy and reliability of the prices collected by price collectors (see Table 3).

Items	Periodicity of Price Collection	
	CCPI 1952	GCPI 1989
1. Food Items	Weekly	Twice a month
2. (a) Clothing	Twice a month	Monthly
(b) Footwear	Twice a year	Twice a year
3. Fuel and Light	Weekly and monthly	Monthly
4. Housing: Rent	-	Annually
Maintenance	Monthly	Bi-annually
5. (a) Liquor and Tobacco	Monthly	Monthly
(b) Betel and Arecanuts	Weekly	Twice a month
6. (a) Household goods	Monthly	Monthly
(b) Household services	Quarterly	Quarterly
(c) Personal care	Monthly	Monthly
(d) Health: Charges and Fees	Twice a year	Twice a year
Pharmaceutical	Monthly	Quarterly
7. Transport and Communication	Twice a year	Twice a year
(a) Transport fares	Monthly	Quarterly
(b) Fuel	Twice a year	Twice a year
(c) Maintenance	Twice a year	Twice a year
(d) Communication	Annually	Annually
8. (a) Recreation and entertainment	Monthly	Monthly
(b) Education: Stationery Fees	Twice a year	Twice a year
(c) Miscellaneous: Durables	Twice a year	Twice a year

Source: GCPI Technical Report 1991.

The CCPI commodities and services selected for pricing have been adjusted on a number of occasions over the years to incorporate additional items and for other reasons. The specifications that were prepared for price collection at that time have

changed for a large number of items and many of the items that are in the consumption basket of the working class households have changed over the years. In view of the effect such adjustments could have had on the index, some of the adjustments introduced into the index are given below.

The adjustments were effected mainly to substitute for brands and items that had disappeared from the market and also to correct for changes in the consumption patterns observed from data disclosed in current surveys. Many brand names had disappeared over the long duration of the CCPI, and some of them had become historical items. For example, tram car fares were replaced with bus fares in 1965 after the tram car service was discontinued. Further, Vita milk was replaced with Lactogen, Parakum brand condensed milk with Milkmaid brand condensed milk, Allenbury's Feeder with Farlane brand feeder, Beauticura brand facial powder with Ponds brand facial powder at various times. Similarly, Navycut cigarettes were replaced with Gold Leaf brand and Four Aces with Bristol cigarettes. These substitutions have resulted in changes in the specifications and the prices of the items priced and, therefore, could have distorted the movement of the index at the time of substitution which may have tailed off over time. A disadvantage of the Laspeyres formula is that the base year quantities instead of current quantities are used and further the market basket is not currently updated. Hence some of the items may no longer exist or are no longer commonly bought due to technological change or changes in consumer taste and fashion.

Apart from substitution for missing items, corrections for changes in the consumption patterns have also been effected using data from current surveys. For instance, a comparison of the consumption patterns of the Urban Family Budget Survey (UFBS) 1977 with the CCPI weights had shown that there had been a decline in the quantities consumed of a number of items such as pulses, groceries, meat, tobacco, liquor, etc. Since items such as Thoorai Dhal and gram whole were not available, cowpea dhal and cowpea whole were substituted using UFBS data and these new items were valued at current market prices. The UFBS 1977 quantities had been substituted for items under the groceries group and the new quantities had been valued at current market prices. For instance, the UFBS 1977 had revealed that the consumption of beef had declined and that the consumption of fish had increased when compared with the 1952 base year quantities. Accordingly, the 1952 base year quantity consumed of beef has been reduced from 7.8 lbs. to 2.3 lbs. and the quantity consumed of fish has been

increased from 5.2 lbs. to 7.6 lbs. using the evidence of the UFBS 1977 data. These adjustments had been effected in 1982.

3.2 Greater Colombo Consumers' Price Index

The Greater Colombo Consumers' Price Index (GCPI) was introduced in 1989 based on the results of the nationwide Labour Force and Socio-Economic Survey (LF and SES) conducted in 1985-86. The survey, which canvassed data on household income and expenditure as well as on employment and unemployment, was conducted in 12 monthly rounds and therefore, it was able to capture seasonal variations in household consumption. The survey sampled 25,000 households nationally and over 1,000 sampled households fell within the Greater Colombo area, which was considered adequate to derive weights for the construction of a CPI. The GCPI weights are based on the household expenditure of the lowest 4 expenditure deciles in the Greater Colombo area. The scope and coverage of the GCPI is wider than the CCPI. The average monthly household expenditure for the lowest 4 deciles was Rs 1,710.21 which included households with an expenditure upper limit of Rs.2,563. The revaluation of the market basket using 1989 base period prices returned an expenditure value of Rs.2,347.71 (a change in a point in this index amounts to Rs.23.48). Thus, even lower middle expenditure classes were partially covered through this GCPI

The geographical area for pricing the GCPI was wider, covering market centres and service outlets in the city of Colombo and Dehiwala-Mount Lavinia MC areas and Kotte, Kolonnawa, Wattala-Mabole and Peliyagoda UC areas. The same market centres in the city of Colombo, which were selected for price collection for the CCPI, were retained for the GCPI.

The coverage of items included in the GCPI is wider. Altogether 8 major groups had been introduced, and these were sub-divided into 42 sub groups, which were further divided into 215 identified commodities and services at the 3rd level. These were again disaggregated into 304 consumer commodities as price collection items.

The GCPI is also based on a HES that was conducted 15 years ago and therefore, the consumption pattern disclosed through the survey can no longer be taken as

representative of current consumption patterns. In addition, LF and SES 1985/86 was a large-scale multi-subject survey, which was not specifically designed and conducted as a family budget survey to disclose the consumption profile for the purpose of using it as weights for constructing a CPI. The limitations of these surveys are discussed in subsequent sections.

3.3 Colombo District Consumer Price Index

The Central Bank of Sri Lanka has introduced the Colombo District Consumer Price Index (CDCPI) which was first released in 1998. The household expenditure of the first four decile groups from the Consumer Finance and Socio-Economic Survey 1996/97 had been selected to derive the weights for the CDCPI. The geographical coverage of the index includes both the urban and rural areas of the Colombo district. Thus, unlike in other indices produced hitherto in Sri Lanka, the rural sector (in the Colombo district) too had been brought within the scope of the index. The reference period of the index is October 1996-September 1997. About 200 items had been included in the market basket. The prices are collected in the Pettah market and four markets and four fairs located in the Colombo district. School teachers engaged by the CBSL are used as price data collectors who collect data from retail outlets through personal visits to the selected outlets. Around 1800 price quotes are collected each month to update the index.

4. Inflation Trends

Three indices are currently available for measuring inflation.² They are the CCPI, GCPI and the GDP deflator. In addition, the Colombo District Consumer Price Index

² Inflation is equivalent to the decline in the internal purchasing power of the Rupee. As prices increase, more money will be needed to buy the same amount of goods and services. Inflation reduces the value of money, affects income and wealth distribution and also causes distortions in the relative prices and outputs of various goods and services. The inflation rate is defined as the rate of change in the average price level between two periods (year on year or month on month) as measured by the CPI. That is

$$\text{Inflation rate} \quad \text{IR} = \frac{\text{CPI}_2 - \text{CPI}_1}{\text{CPI}_1} \times 100$$

The annual inflation rate refers to the percentage change in CPI in year 2 over the CPI in year 1. It is the usual measure of inflation rate. Month on month inflation rate is the percentage change in CPI from the previous month to the current month. Inflation rate can be computed using other price indices but the most widely used is the CPI. It has the widest coverage, the consumer being the last stage in the flow of goods and services. Consumer spending also accounts for more than 2/3rds of the total spending in the economy. In 1999 personal consumption expenditures at current prices accounted for 67.7 per cent of GDP.

(CDCPI) constructed by the CBSL is also available. The CDCPI, which was introduced in 1998, covers the past 3 years only. The movement of the CCPI and GCPI and the inflation rates based on them are given in Table 4.

The index value of the CCPI has increased from 100.0 in 1952 to 2,539.8 by the end of 2000, which averages to 50.8 index points per year or at an average annual inflation rate of 7.0 per cent. This average annual increase in the CCPI from inception to 2000 has varied significantly in different time periods, which could be divided into four, namely 1952 –1966, 1966 - 1976, 1976 - 1987 and 1987 - 2000 based on the variations in the CCPI growth trends. Undoubtedly, important economic policy developments including devaluation of the rupee, removal of price controls and subsidies, large-scale investment programs, and deficit budgets financed through expansionary sources caused the CCPI to increase with corresponding levels of inflation in the different time periods. In addition, there were other issues such as the oil price shocks, and increase in import prices of consumer items that also contributed to inflation. The increase in the value of the index, inflation rate, and value in Rupees of increase in index value (one CCPI unit = Rs2.02, which is relevant for wage indexation) in respect of the above periods are presented in Table 5.

The period 1952-66 was a period of low inflation where the recorded inflation rate was less than 1 per cent and where the total increase in index value in rupees had amounted to less than Rs.25 for the entire period. The low inflation was due to a number of factors including: maintenance of a fixed exchange rate since 1949; shortages of essential food items which were met by imports, which helped to curb any sharp price increases; maintenance of price controls, rationing and subsidies on essential foodstuffs and textiles; and slower rate of monetary expansion.³ There had been moderate inflation of around 6 per cent per year during 1966-76 where the

³ Please refer Central Bank of Sri Lanka, Colombo, (1998), Economic Progress of Sri Lanka 1948-1998 pages 44-47, for a discussion of the policies and other developments that influenced inflation trends during the period 1952 to 1998.

Table 4 : Movement in the Price Index Numbers: CCPI and GCPI

Year	CCPI				GCPI			
	All Items	Change in Index Value	Rs. Value of Incr. in Index	Inflation Rate	All Items	Change in Index Value	Rs. Value of Incr. In Index	Inflation Rate
1952	100.0							
1953	101.6	1.6	3.23	1.6				
1954	101.1	-0.5	-1.01	-0.5				
1955	100.5	-0.6	-1.21	-0.6				
1956	100.2	-0.3	-0.61	-0.3				
1957	102.8	2.6	5.25	2.6				
1958	105.0	2.2	4.44	2.1				
1959	105.2	0.2	0.40	0.2				
1960	103.5	-1.7	-3.43	-1.6				
1961	104.8	1.3	2.63	1.3				
1962	106.3	1.5	3.03	1.4				
1963	108.8	2.5	5.05	2.4				
1964	112.2	3.4	6.87	3.1				
1965	112.5	0.3	0.61	0.3				
1966	112.3	-0.2	-0.40	-0.2				
1967	114.8	2.5	5.05	2.2				
1968	121.5	6.7	13.53	5.8				
1969	130.5	9.0	18.18	7.4				
1970	138.2	7.7	15.55	5.9				
1971	141.9	3.7	7.47	2.7				
1972	150.9	9.0	18.18	6.3				
1973	165.4	14.5	29.29	9.6				
1974	185.8	20.4	41.21	12.3				
1975	198.3	12.5	25.25	6.7				
1976	200.7	2.4	4.85	1.2				
1977	203.2	2.5	5.05	1.2				
1978	227.8	24.6	49.69	12.1				
1979	252.3	24.5	49.49	10.8				
1980	318.2	65.9	133.12	26.1				
1981	375.4	57.2	115.54	18.0				
1982	416.1	40.7	82.21	10.8				
1983	474.2	58.1	117.36	14.0				
1984	553.1	78.9	159.38	16.6				
1985	561.2	8.1	16.36	1.5				
1986	606.0	44.8	90.50	8.0				
1987	652.8	46.8	94.54	7.7				
1988	744.1	91.3	184.43	14.0				
1989	830.2	86.1	173.92	11.6	100.0			
1990	1008.6	178.4	360.37	21.5	124.6	24.6	577.61	24.6
1991	1131.5	122.9	248.26	12.2	138.9	14.3	335.76	11.5
1992	1260.4	128.9	260.38	11.4	152.0	13.1	307.59	9.4
1993	1408.4	148.0	298.96	11.7	164.8	12.8	300.54	8.4
1994	1527.4	119.0	240.38	8.4	172.6	7.8	183.14	4.7
1995	1644.6	117.2	236.74	7.7	179.3	6.7	157.32	3.9
1996	1906.7	262.1	529.44	15.9	205.5	26.2	615.18	14.6
1997	2089.1	182.4	368.45	9.6	220.1	14.6	342.81	7.1
1998	2284.9	195.8	395.52	9.4	235.2	15.1	354.55	6.9
1999	2392.1	107.2	216.54	4.7	244.1	8.9	208.97	3.8
2000	2539.8	147.7	298.35	6.2	252.0	7.9	185.49	3.2

Source: Computed from CCPI Index Numbers in Table 6.

Table 5: CCPI Growth Trends and Value in Rupees of Increase in CCPI Index

Period/ Duration	Increase in Index Points	Inflation Rate %	Index Points Per Year	Rupee Value of Annual Increase in Index Points	Rupee Value of Total Increase in Index Points
1952-66	12.3	0.8	0.9	1.77	24.85
1966-76	88.4	6.0	8.8	17.86	178.67
1976-87	452.1	11.3	41.1	83.02	913.24
1987-00	1887	11.0	145.1	293.21	3811.74
1987-94	874.6	12.9	124.9	252.38	1766.69
1994-00	1012.4	8.8	168.7	340.84	2045.05
1952-00	2439.8	7.0	50.8	102.67	4928.40

Source: Computed from CCPI Index Numbers in Table 4.

increase in the value of the consumption basket had amounted to approximately Rs.18 per year. Moderate inflation during this period was mainly due to devaluation of the rupee since 1967; dual exchange rates and foreign exchange entitlement certificates (FEECs); higher import prices, particularly of crude oil; higher money supply; shortages of consumer items; and growth of a black market. There had been high inflation rates after 1976, which had risen to nearly 13 per cent between 1987 and 1994. High inflation during this period was mainly due to: removal of price controls and rationing; currency devaluation and unification of the exchange rate; removal of subsidies; high budget deficits financed by expansionary sources; and sharp increase in import prices, particularly a second oil price hike. During 1994 to 2000, high inflation was reduced to an average of 8.8 per cent per year through: a reduction in administered prices of flour, bread and kerosene; improved agricultural production; reduction of tariffs; and low world market prices of imported food items. However, it increased again due to higher international commodity prices, cut back in subsidy on wheat flour and high energy costs.

As far as the numerical value of the index is concerned, it had continued to increase, and the number of index points per year has continued to rise from 41 between 1976-87 to 125 index points per year between 1987 – 1994 and further to 168.7 index

points between 1994 – 2000. The average annual increase in the value of the market basket had amounted to Rs.340 per year during 1994 – 2000. These figures are indicative of the type of wage increase necessary to prevent a decline in real wages and a fall in the living standards of the working class groups in Colombo, assuming of course, that the CCPI measures current inflation trends accurately. It should be emphasized that the representative population that was covered by the index was the urban working class population in Colombo. In the absence of other indices that covered other socio-economic groups and other geographic localities, the CCPI has been extended to cover them. The average household consumption expenditure in other urban areas and in rural areas have been lower than in Colombo as disclosed in household expenditure surveys.

The GCPI has shown a lower inflation trend than that recorded by the CCPI. In its first few years from 1990 to 1993, although GCPI inflation rates were lower, yet the higher value of a unit of the GCPI market basket in Rupees had returned higher Rupee values for the increase in the GCPI (see Table 7). Thereafter, the increase in the value of the index in rupee terms has also been lower than that of the CCPI except during 1996. These trends in the movement of the GCPI would make the index unattractive for wage indexation from the perspective of employee organizations. The annual increases in the GCPI when translated into rupees amount to Rs.393.26 for 1998 and Rs.193.39 for 1999. These results will make it more difficult to phase out the CCPI with outmoded weights and to introduce a new CPI series.

The movement of the CCPI major group indices for food and non-food groups presented in Table 6 shows the differential growth paths taken by the group indices. House rent has been frozen and therefore its actual trend is not recorded. The data shows that the fuel and light major group has recorded a higher growth trend than that of the food and miscellaneous groups, but in the case of the clothing index, the increases have been substantially lower. One of the striking features of the series is that after the 1960s, none of the sub-group indices have had any values lower than the figure quoted for the preceding year, although such changes were observed in the 1950s. This large dispersion in the major groups indices reflects different overall

Table 6 : Movement in the CCPI Major Group Indices and All Items Inflation Rate

Year	All Items	Food	Clothing	Fuel and Light	Rent	Miscellaneous	All Items Change in Index	All Items Inflation Rate
1952	100.0	100.0	100.0	100.0	100.0	100.0		
1953	101.6	106.0	82.8	99.8	101.3	97.2	1.6	1.6
1954	101.1	106.1	79.5	103.4	101.5	94.5	-0.5	-0.5
1955	100.5	105.1	80.5	102.3	101.5	94.6	-0.6	-0.6
1956	100.2	103.3	81.8	101.3	101.5	98.6	-0.3	-0.3
1957	102.8	104.9	84.4	97.3	101.5	106.9	2.6	2.6
1958	105.0	105.8	87.5	101.0	101.5	113.1	2.2	2.1
1959	105.2	104.7	92.1	102.4	101.5	115.3	0.2	0.2
1960	103.5	100.8	95.1	102.7	101.5	117.5	-1.7	-1.6
1961	104.8	99.8	103.9	104.4	101.5	122.8	1.3	1.3
1962	106.3	100.9	108.2	105.6	101.5	124.9	1.5	1.4
1963	108.8	103.0	118.2	103.0	101.5	126.6	2.5	2.4
1964	112.2	106.4	127.2	103.2	101.5	129.3	3.4	3.1
1965	112.5	107.3	126.7	100.7	101.5	128.3	0.3	0.3
1966	112.3	109.1	117.3	95.9	101.5	127.3	-0.2	-0.2
1967	114.8	112.7	116.7	96.4	101.5	128.9	2.5	2.2
1968	121.5	121.2	120.1	103.2	101.5	133.6	6.7	5.8
1969	130.5	127.9	130.8	124.9	108.4	147.1	9.0	7.4
1970	138.2	136.6	137.3	136.1	109.8	153.2	7.7	5.9
1971	141.9	139.1	145.0	140.8	109.8	169.5	3.7	2.7
1972	150.9	147.5	163.5	145.9	109.8	169.5	9.0	6.3
1973	165.4	166.2	186.1	164.4	109.8	169.8	14.5	9.6
1974	185.8	189.7	204.6	220.9	109.8	178.3	20.4	12.3
1975	198.3	204.3	208.2	237.0	109.8	191.9	12.5	6.7
1976	200.7	202.1	211.7	265.2	109.8	203.8	2.4	1.2
1977	203.2	203.3	223.8	257.5	109.8	208.4	2.5	1.2
1978	227.8	237.5	226.2	262.1	109.8	224.8	24.6	12.1
1979	252.3	263.3	231.2	328.5	109.8	252.4	24.5	10.8
1980	318.2	339.7	239.9	563.9	109.8	293.8	65.9	26.1
1981	375.4	399.6	257.8	767.9	109.8	345.7	57.2	18.0
1982	416.1	450.4	273.8	816.4	109.8	377.1	40.7	10.8
1983	474.2	506.3	291.1	1087.6	109.8	433.7	58.1	14.0
1984	553.1	598.0	307.5	1282.7	109.8	496.9	78.9	16.6
1985	561.2	598.4	324.2	1332.1	109.8	524.4	8.1	1.5
1986	606.0	641.4	374.5	1347.6	109.8	599.7	44.8	8.0
1987	652.8	697.0	400.9	1358.7	109.8	650.7	46.8	7.7
1988	744.1	802.0	419.8	1535.1	109.8	742.6	91.3	14.0
1989	830.2	884.6	490.0	1718.9	109.8	860.1	86.1	11.6
1990	1008.6	1090.9	610.2	1934.2	109.8	1021.0	178.4	21.5
1991	1131.5	1220.3	678.4	2252.2	109.8	1146.0	122.9	12.2
1992	1260.4	1366.0	723.6	2334.3	109.8	1318.7	128.9	11.4
1993	1408.4	1519.4	782.7	2730.0	109.8	1490.4	148.0	11.7
1994	1527.4	1654.1	795.7	3131.6	109.8	1578.7	119.0	8.4
1995	1644.6	1768.1	803.9	3322.4	109.8	1800.6	117.2	7.7
1996	1906.7	2107.6	821.8	3591.6	109.8	1994.7	262.1	15.9
1997	2089.1	2336.9	844.0	3739.8	109.8	2157.8	182.4	9.6
1998	2284.9	2592.1	852.3	3872.8	109.8	2319.9	195.8	9.4
1999	2392.1	2695.4	863.3	3929.7	109.8	2558.1	107.2	4.7
2000	2539.8	2815.8	872.9	4460.9	109.8	2802.7	147.7	6.2

Source: Department of Census and Statistics.

relative price changes facing different groups of households. More importantly, this pattern indicates that the relative well being or living standards of households that are more or less dependent on these major groups would be affected differentially.

The annual inflation rates based on CCPI and GCPI and the GDP deflators⁴ computed for the GDP series compiled by DCS and CBSL are shown in Table 7. Here too, CCPI has shown higher inflation rates compared with the rates disclosed by GDP deflators compiled by DCS and CBSL. There are differences in the GDP deflators compiled by DCS and CBSL during the period 1985-1999. GDP deflators compiled by DCS are of higher value but these differences appear to have narrowed during the past few years. The CCPI rates for some years are 1-2 per cent points higher than the GDP deflators and for 1996 the difference is over 3.5 per cent points. There is evidence that the CPI constructed using fixed weight Laspeyres formula based indices assumes a higher growth trend when the estimation period is long and they fall far outside the base period.

Year	Inflation Rate			
	CCPI	GCPI	GDP Deflator DCS	GDP Deflator CBSL
1985	1.5		2.0	0.9
1986	8.0		4.8	5.8
1987	7.7		7.8	7.0
1988	14.0		12.4	11.5
1989	11.6		11.6	9.6
1990	21.5	24.6	20.6	20.0
1991	12.2	11.5	11.0	11.0
1992	11.4	9.4	9.3	10.0
1993	11.7	8.4	10.8	9.5
1994	8.4	4.7	9.7	9.3
1995	7.7	3.9	8.4	8.4
1996	15.9	14.6	12.2	12.1
1997	9.6	7.1	8.5	8.6
1998	9.4	6.9	8.3	8.4
1999	4.7	3.8	4.4	4.4
2000	6.2	3.2	na	6.7

Source: Department of Census & Statistics and Central Bank of Sri Lanka.

⁴ GDP deflator is defined as the ratio of the nominal GDP to real GDP multiplied by 100. It is an index of the prices of all domestically produced goods and services in the economy. The percentage change in the GDP deflator provides one measure of the overall rate of inflation.

Since the CCPI is used in estimating GDP aggregates, it is doubtful as to what extent the GDP deflator can be treated as an independent indicator. In the context of large gaps in data, it becomes necessary to adopt several different methods and techniques in preparing current estimates of national accounts aggregates. Where production data are not available, per capita consumption derived from household expenditure surveys are used after adjustment for population growth and change in prices in estimating these aggregates. The component or sub-group price indices are used for effecting adjustments for changes in prices. For instance, in the absence of reliable and comprehensive data on items such as other food crops, fruits and vegetables, this method of compiling estimates is usually adopted. This procedure is also used for products and services produced by small scale industries and cottage industries and for such items as unorganized transport. Conversely, the component sub-indices of the CPI are normally used for deflating components of the private consumption expenditure, in order to obtain the constant price estimates of national accounts. An interesting result is seen by deflating the personal consumption expenditure (PCE) component of the GDP, that amounts to as much as 2/3rds of total GDP, using the CCPI. It was found that a very close estimate of the current value in current prices of PCE can be derived, by using the CCPI and population growth rates as multipliers.

5. Need to Replace the Current CPI

The fact that the CCPI was outmoded and that a new index should be introduced was accepted as far back as 1958, about 6 years after the CCPI was introduced and about 10 years after the Family Budget Survey of 1949-50, on which the CCPI was based, was carried out. The Minister of Finance had appointed an official committee to revise the cost of living index in November 1957. The terms of reference of the Committee were: to design and supervise the execution of a realistic cost of living index or indices of the middle and lower income groups; to examine the need for separate indices to reflect the cost of living in particular areas; and to prepare such indices. Thus, it was evident that by the end of the 1950s, the CCPI had to be substituted by a new index or indices widening the coverage that was restricted to working class households in Colombo, increasing the coverage to middle income groups, and the geographic coverage at least to other urban areas.

This official committee had in conjunction with the DCS, conducted the Household Budget Survey 1958 covering Colombo and other urban areas. The survey had

covered both working class and middle-income households and the weighting patterns of these target groups had been established. The revised indices based on this survey had been presented to the Ministry of Finance in 1960.

However, the recommendation made to discontinue the CCPI and adopt the indices based on the new survey of 1958 was not accepted. On three subsequent occasions too, the DCS had proposed the introduction of new indices. The second proposed index was presented in 1972 based on the expenditure data of the Socio Economic Survey 1968/69. The third proposal to adopt a new CPI was based on the Urban Family Budget Survey of 1977 which was submitted to the Ministry of Plan Implementation in 1978. The fourth proposal was submitted in 1983 based on the LF+SES 1980/81.

While the need for introducing a new index or index numbers had been recognized by the government and representatives of employers and trade unions in principle, they had hesitated to introduce the new index. This was mainly because of the uncertainty of the likely behaviour of the new index, especially in relation to trends that had been observed in the CCPI. The CCPI had been used in a large number of tripartite labour agreements. In these agreements the specific rates at which wages should be raised for a unit increase in index value had been written in to the agreements. An introduction of a new index would have resulted in renegotiation of these wage escalation clauses, and the Ministry of Labour had also been concerned over the issue. While the CCPI had no direct bearing on wages of government employees, the CCPI was used in wage escalation in public sector corporations and state aided institutions. Hence, the government was also concerned about the implications of moving on to new consumer price indices.

These issues were considered at the time of introducing the GCPI. It was decided to introduce the new GCPI as a trial index allowing those users who wished to move on to the new index to do so. To avoid the issue of users objecting to the introduction of the new index, it was decided to continue to compile the CCPI. It was believed that the new weights would be more representative and its wider scope and coverage would encourage users, especially economic analysts and researchers, to use this index rather than the CCPI with its outmoded weights.

6. Issues and Problems

There are several types of issues and problems connected with the establishment and compilation of price indices. Some of these issues are concerned with the concept of the price index itself, and others relate to price index structure, design and their compilation. These issues are briefly reviewed here.

The CPI is not an exact measure of price changes. CPI numbers that are computed are subject to sampling errors which would cause them to deviate from the results that would be obtained, if actual records of all purchases by consumers could be used to compile the index. These estimating or sampling errors are statistical limitations of the index rather than errors in the computation of the index. They arise from the use of a sample of the reference population and a sample of the total consumption of goods and services in the form of a market basket. These errors can be lowered by identifying a larger sample of households from the reference population and by raising the number of items priced and thereby increasing the weight of the market basket as a proportion of total consumption.

In addition, there are non-sampling errors that are introduced as a result of failure to ascertain comprehensive data on consumption at the stage of conducting the survey, inappropriate location, inadequate coverage of the outlet sample, and poor quality of price data collected. Our CPI series are subject to both these types of errors. As far as sampling errors are concerned, while the errors can be estimated they are difficult to avoid, and attempts to reduce the sampling errors by increasing the sample could, in effect, lead to an increase in non-sampling errors. But the sample of around 400 households that were included in the lowest four deciles in LF and SES 1985/86 is now observed to be barely sufficient for GCPI weights. As regards non-sampling errors, it is essential to minimize the errors that arise in price data collection and in the processing stages.

The consumer price indices that are currently compiled are not indicators of inflation for the entire population. The CCPI has used the working class households in Colombo MC as the reference population and the GCPI has extended this to include the lower middle-income groups (the first 4 expenditure decile groups) in the Greater Colombo area. The CDCPI too, covers only the first four expenditure deciles of the reference population in the Colombo district. The consumption pattern of the middle

and upper income deciles are markedly different and inflation could follow these differences and very likely follow a different trend over time. Thus, there is a growing need for a CPI which treats the entire household population as a reference population, and cover all expenditure groups to serve as an inflation indicator.

A new family budget inquiry was undertaken in 1958 in the city of Colombo. It was found that there had been an increase in the expenditure on food items from 61.2 per cent to 62.2 per cent. More importantly, within food expenditure, the expenditure on cereals and cereal preparations had declined from 19.1 per cent to 16.9 per cent while the expenditure on fish, meat, milk and eggs had increased from 12.9 per cent to 15.4 per cent. Further, the expenditure on clothing had declined from 8.2 per cent to 5.1 per cent of total expenditure. There was thus a distinct shift in the pattern of consumption expenditure by 1958, 10 years after the 1949-50 family budget survey. Such changes in the consumption patterns are very likely to have occurred in the past decades too, confirming that CPI should be updated using results of new surveys on a regular basis.

6.1 Current Consumption Profile

A CPI should be based on the current consumption patterns of the reference population. Changes in consumer taste, fashion and technology cause the fixed market basket of goods and services to become outmoded, and thus they may no longer represent what consumers commonly buy. The weights used in CCPI are outdated. Consumption patterns have changed significantly during the past 5 decades, even in the case of GCPI, in which the weights are a decade and a half old. CPI weights are generally accepted to be sufficiently representative for a period of 5-10 years from the date of the survey.

The CCPI is based on the weights of working class families that received Rs.50 to Rs.485 per month in 1949/50. The average expenditure value of the sampled households amounted to Rs.185.27 and after re-valuation in 1952 prices, this amount increased to Rs.202.24. Further, a high proportion of the reference population from which this sample was drawn has moved out of the city of Colombo to the suburbs because of the high property and rental values. Thus, the continued collection of prices for compiling CCPI from the markets in the municipality of Colombo is unrealistic, and meaningless in the context of these developments.

The items in the CCPI have been adjusted on a number of occasions over the years to make substitutions for missing items, accommodate quality differences and for other reasons. Many of the items that are in the consumption basket of the working class households have substantially changed and new items have been introduced. The specifications that were prepared for price collection at that time have also been changed for many items. These modifications have changed, the structure of the CCPI and may no longer be a sensitive indicator of current changes in consumer prices.

The current CCPI has a high price sensitivity to selected items due to the outdated consumption pattern and unrealistic weights attached to such items. Price changes in these items have high impact on the all items index which could result in an unrealistic direction to the movement of the index.

6.2 Base Period

The base period is the duration usually a year at which the index is set to 100. Since the base year is the period on which prices in other periods are being compared, the base year chosen must be relatively normal. Ideally, the base year must be politically and economically stable. Although a decision was taken to introduce the GCPI, 1989 was not an appropriate year. Also, it must be periodically revised (often called rebasing) because if the base year is too remote, price comparisons may no longer be useful. This arises especially when the Laspeyres formula is used.

6.3 House Rent Excluded

There are several issues that relate to the rental component of the index. In the CCPI, except at the inception of the series, the house rent has been frozen. Thus, the all item index in that sense, does not reflect the actual movement of the prices of the total market basket of goods and services for which the index was designed. DCS has not published an index excluding the rental component.

The house rents in urban areas have escalated, the extent of escalation being similar to the increase in land values. The rental component has not been accurately measured in the statistical surveys conducted recently. There are several problems in measuring house rents. The majority (in 1981, 70 per cent of all housing units and 58 per cent in urban areas) of housing units are owner occupied units and it becomes necessary to ascertain the imputed value of house rents from owner occupiers. Many such

respondents find it difficult to provide an accurate assessment of the imputed value of house rents. There is also subsidized housing provided to government and local authority employees and to employees of some firms. What such respondents often provide are not market rents but the subsidized rents paid by them. Further, there is the issue of rent controlled houses where the tenants report the subsidized rent they pay in terms of the rent control legislation. These measurement difficulties have lowered the rental component of household consumption reported, and there are large differentials in the share of housing reported through these surveys.

6.4 Index Weights

It has been observed in practice, that it is difficult to measure certain items of goods and services in the consumption basket through multi-subject household expenditure surveys. For instance, all the surveys conducted by DCS in the recent past have not been able to obtain realistic estimates of liquor and tobacco, personal care items, food consumed outside the household etc. CWCI and CCPI weights for liquor and tobacco were of the order of 7 per cent to 8 per cent and that of the GCPI amounted to only 3.8 per cent of total consumption. It is known that LF +SES 1981 and LF +SES 1985/86, as well as some other surveys, have significantly under estimated household consumption of these items. In fact, this was proved to be so when some sales estimates of liquor and tobacco were compared with the estimates derived through these surveys. The lower estimates of these items create a bias in the CCPI, the direction of which would depend on the relative differences in the changes of the prices of these and other items.

7. Conclusion

Price statistics are important because they are used in analyzing economic activities and in formulating economic policies. Price changes should be closely monitored as they affect other macroeconomic variables like production, employment, as well as interest and exchange rates. They also affect income and wealth distributions and resource allocation. CPI is a key indicator used in determining inflation rates and as a measure of change in the value of money or the purchasing power of the currency. Therefore reliable estimates of CPI must be compiled and priority will have to be given to this item of work in statistical programmes.

Over a period of time there are changes in the availability of goods and services, with some items disappearing from the market and other new goods and services entering the market. These changes in the availability of goods and services and developments in the economic and social conditions, invariably result in important changes in the consumption patterns of different sections of the population. In a developing country such as Sri Lanka, which is increasingly exposed to globalization and foreign trade, the consumption patterns will be subject to accelerated changes. This means that the CPI that are compiled will have to be updated regularly.

None of the currently compiled indices are reliable indicators of inflation in Sri Lanka. The CPI and GCPI are dated and are no longer representative as measures of inflation. In addition, the surveys on which the weights are based have not been able to realistically capture some major items of household consumption and as a result, the weights of those consumption categories are under-estimated. An examination of the movement of the GCPI in the past few years, indicates that it is no longer a reliable index, its weights having been derived more than 15 years ago.

The GDP deflator is not an independent indicator. The paucity of current data sources for estimating GDP aggregates in some sectors and sub-sectors, makes it necessary to use indirect methods, which involve the extensive use of CPI and other indicators to estimate GDP aggregates. Therefore, the GDP deflator cannot be treated as an independent indicator which is devoid of the shortcomings and limitations of the CPI that are currently in use.

There has been no commitment on the part of the users and the government to introduce a new CPI, which could reflect the changes in prices and serve as a reliable indicator of inflation. DCS had made several efforts to introduce new CPIs, two of which were based on surveys that were specially designed to compile CPIs. These proposals were not accepted resulting in the continuation of outmoded indices. With conflicting signals coming from the indices that are currently compiled, it is unlikely that the employee organizations will unhesitatingly commit themselves to adopt new indices.

Only one state authority should be responsible for the compilation of CPI. Rather than proliferating indices, what is required is to establish representative CPIs covering

reference populations and geographic localities and have them updated regularly. Most countries have moved away from multiple indices compiled by different authorities. Multiple indicators are counter productive as they lead to confusion in addition to waste of resources.

There is a need for an index to serve as a general inflation indicator where the reference population is the entire population. The only group that might be excluded from such an index could be the few top most percentiles, as it would be difficult to establish price collection procedures to effectively capture the consumer items purchased by these households. In addition to such an index, a more restricted index where the reference population covers the low expenditure groups say, up to the fourth decile, to serve wage indexation purposes will also have to be established to replace the current indices. It is possible to organize and manage one price data collection programme to produce the data needed for updating both these sets of indices. Since it is difficult to undertake price data collection with adequate supervision without sufficient resources, the extension of the price indices to selected provincial urban centres can be deferred until resources are available.

All aspects relating to the data collection, compilation and processing of data up to the release and publication of the CPI, should be subject to the confidentiality provisions of statistical legislation. Such procedures are adopted by agencies responsible for compiling CPI such as the US Bureau of Labor Statistics, Australian Bureau of Statistics etc., to ensure the integrity of the indices they compile and enhance the confidence of the data users. It has been possible to maintain the confidentiality and integrity of individual data supplied to the DCS by households and enterprises. The current legislation however, will have to be strengthened. Hitherto, pressure has come more from within the government bureaucracy in order to reflect a low inflation regime.

DCS should set up a timetable for revising CPI and include the conduct of the related household budget survey in its statistical work plan. The participation of employees, employers, organizations, and the Department of Labour at the survey and questionnaire design stages would help to reduce their anxieties and to obtain their cooperation. The current consumption profile of the target population can be captured in adequate detail and completeness through well designed HES conducted every 5-7 years.

A new CPI should be based on a specially designed HES that is undertaken purely for deriving weights for CPI. There are many expenditure categories and items that are found to be increasingly difficult to measure through household based surveys for example, food consumed outside the household, liquor and tobacco, personal care items, education (tuition) and transport expenses. The usual arrangements made to collect data from the head of the household or other knowledgeable member of the household, have been found to be inadequate in practice to collect complete and comprehensive data on household consumption. It is now recognized that it is essential to interview all members or several members of a household to collect the required information. A well-designed and focused survey is required to collect accurate and reliable information. Prior commitment from the concerned authorities to use the survey results to establish new indices, is also a pre-requisite to avoid the waste of resources, efforts and disappointments that have occurred in the past.

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