



HICP-CPI DIFFERENCES

Both Harmonised Indices of Consumer Prices (HICPs) and Consumer Price Indices (CPIs) measure inflation faced by consumers, i.e. the changes in the prices over time of buying goods and services. HICPs and CPIs are for the most part based on the same data sources, but they measure inflation with different aims and therefore sometimes use different concepts or methods.

The main uses of the HICP are, first, for monetary policy purposes. The ECB defines price stability as a year-on-year increase of the HICP for the Euro area of below, but close to, 2% over the medium term. The change in consumer prices is one of the convergence criteria used to assess whether a Member State is ready to join the euro area. These uses require a harmonised conceptual framework and comparable results. In addition, HICPs are becoming increasingly used for economic analyses in general – and for indexation purposes.

CPIs play a role in some countries for monetary policy and for economic analysis in general, but also have a wide range of other uses, such as for the indexation of commercial contracts, wages, social protection benefits, financial instruments. The range of uses made of CPIs varies across countries. CPI calculation methods vary as a result, and national CPIs are usually not regarded as comparable for cross-country analyses. For the EU, only the HICPs provide comparable measures of consumer price inflation, and they are therefore used for cross-country analysis.

The differences between HICPs and CPIs may sometimes be significant in practice, although in general the differences have been diminishing as national statistical offices have adopted HICP standards also for their CPIs. The main differences are as follows:

- The treatment of ***owner-occupied housing***: Price changes for the Owner-Occupied Housing are currently excluded from the HICP. In CPIs they may or may not be included, and, where they are included, the methods used differ substantially.
- The ***coverage of households***: The HICP covers households' expenditures taking place within the country, whether those households actually live in the country or whether they are merely visiting the country and covers institutional households as well. On the other hand, CPIs usually record expenditures by resident households, whether that takes place within the country or abroad.
- The coverage and measurement of ***taxes and fees, and services*** – such as health, social protection, education and insurance services: The harmonised treatment of these expenditures is a major asset of the HICP. The HICPs measure the actual prices faced by consumers, so after taxes, duties and net of reimbursements, e.g. for medicines. CPIs may use different approaches, or exclude parts of such expenditures.

Some other differences between HICPs and CPIs, at least in some EU countries, concern: the methods used to estimate prices for goods when their quality is changing over time; the coverage of price reductions during winter and summer sales periods; the coverage of lotteries, games of chance and certain financial services and the basic calculation formulae used at the most detailed level to aggregate price data. There may be also differences between the national classifications used for the CPI and the harmonized classification of the HICP.