

Technical note on Base year revision

COLOMBO CONSUMER PRICE INDEX (Base: 2013=100)

The Department of Census and Statistics (DCS) has been releasing Colombo Consumer Price Index (CCPI) with base period of 2006/07 from June 2011 on the last working day of each month, covering the urban areas of Colombo district. It has been arranged to revise the base year from 2006/07= 100 to 2013= 100. Accordingly with respect to the new base year (2013=100) will be released monthly commencing from January 2017 on the last working day of each month.

1. Background:

A Consumer Price Index serves a number of purposes. It is an indicator to measure the changes in the general level of consumer prices and used as one of the key indicators of inflation. Consumer Price Index is also used for socio-economic analysis and policy purposes, mainly in the determination of monetary and income policies. It is used in the analysis of the trends in wages and other monetary income, for indexation of salaries and wages etc. Consumer price index is also used to deflate the current values in National Accounts to obtain real values and therefore, a major determinant of the GDP deflator.

2. Need for rebasing:

It is a common practice of the countries that the basket of goods & services and the weights of the CPI are updated in regular interval probably in five year intervals to accommodate the changing expenditure patterns, and to incorporate changes of goods & services available in the market. As otherwise obsolete expenditure pattern and inappropriate price changes could lead to misleading signals in policy simulation and decision making.

3. Characteristics :

The Colombo Consumers Price Index CCPI (Base: 2013=100) is based on data from the Household Income and Expenditure Survey 2012/13. The main features of CCPI are as follows:

- i. **Base Period:** The year 2013 is the base period for CCPI (Base: 2013=100). The total monthly expenditure value of the base period (ie. 2013=100) is Rs. 60,364.73 and expenditure level is 115.80% greater than the base period expenditure level of Rs. 27,972.11 in the CCPI (Base: 2006/07=100). This increase reflects the increased expenditure due to higher income, prices and the changed composition of the consumption basket.
- ii. **Value of one Index Point:** Average consumption expenditure of a household of CCPI (Base: 2013=100) was Rs. 60,364.73 and the value of one index point was Rs. 603.65.

- iii. **Market Basket of Goods and Services:** The CCPI (Base: 2013=100) has a larger consumption basket than in the CCPI (Base: 2006/07=100). It contains 95 sub classes; 10 groups in the CCPI (Base: 2006/07=100) but 2013 basket 105 sub classes of goods and services further categorized; 12 groups. In both occasions Classification of Individual Consumption according to Purpose (COICOP) classification as per the international recommendations. The average household expenditure and percentages for the 12 groups in the CCPI (Base: 2013=100) are given in Table 02. The share of food category was 28.24% while the share of Non-food category was 71.76%. The CCPI (Base: 2006/07=100) does not include alcoholic beverages, tobacco and narcotics as an expenditure item in the consumption basket. But in CCPI (Base: 2013=100) includes alcoholic beverages, tobacco and narcotics as an expenditure item in the consumption basket. In CCPI (Base: 2006/07=100) Restaurants and Hotels division was included under the food group. But in CCPI (Base: 2013=100) includes as a separate group. **This is the main reason for low value of 28.24% reported for food share.**
- iv. **Full year coverage of Consumption patterns:** Expenditure weights were obtained using data on Household Expenditure from the Household Income and Expenditure Survey during the 12 months period from July 2012 to June 2013. Therefore, it has captured the seasonal variations of consumption pattern.
- v. **Coverage of House Holds in Colombo District urban areas:**
The geographical coverage of the CCPI (Base: 2013=100) is same as that of in CCPI (Base: 2006/07=100) and it covered urban areas of the Colombo District, i.e. Colombo Municipal Council, Dehiwala-Mt. Lavinia Municipal Council, Moratuwa Municipal Council, Sri Jayawardenapura Municipal Council, Kaduwela Municipal Council, Kolonnawa Urban Council, Seethawakapura Urban Council, Maharagama Urban Council, Kesbawa Urban Council and Boralasgamuwa Urban Council.
- vi. **Price Collection Procedure :** The price collection of the index (Base: 2013=100) has covered 14 price collection centers in Pettah, Maradana, Wellawatta, Dematagoda, Grandpass, Borella, Kirulapone, Dehiwala & Mt. Lavinia, Kotte, Nugegoda, Rathmalana, Kolonnawa and two Dedicated Economic Centers namely Narahenpita and Rathmalana as in index (Base:2006/07=100).
- vii. **Method of Computation:** In the Index (Base: 2013=100) DCS has introduced the use of Modified Two stage Laspeyers formula to calculate the CCPI. The price collected in the current period is divided by its previous period price and this short-term ratio is multiplied by the items estimate of the cost of base period spending assigned to the item.

Key Characteristics of Colombo Consumer Price Index (Base: 2006/07=100) and the Colombo Consumer Price Index (Base: 2013=100) are summarized in Table 1 below.

Table 1 – Key Characteristics of Colombo Consumer Price Index: base year 2006/07 = 100 and the Colombo Consumer Price Index: base year 2013=100

Characteristics	CCPI (Base: 2006/07=100)	CCPI (Base: 2013=100)
1. Base year survey	2006/07 HIES	2012/13 HIES
2. Geographical Coverage	Colombo District All urban areas of Colombo	Colombo District All urban areas of Colombo
3. Size of household unit	4.4	3.9
4. Average monthly Consumption Expenditure	27,972.11	60,364.73
5. Value of one Index point	279.72	603.65
6. Major Groups	10	12
Sub Groups	95	105
7. Total number of items	373	392
i. Food	169	181
ii. Non Food	204	211
8. Percentage of total weight		
i. Food	41.03	28.24
ii. Non Food	58.97	71.76
9. Price Collection Centers	14	14

Table 2- Colombo Consumer Price Indices Weight by main categories

Main Categories	CCPI (Base: 2013 =100)		CCPI(Base: 2006/07 =100)	
	Value of Expenditure (Rs.)	Weight (%)	Value of Expenditure (Rs.)	Weight (%)
Total consumption expenditure	60,364.73	100	27,972.11	100
1. Food and non alcoholic beverages	17,044.70	28.24	11,476.50	41.03
Non food	43,320.03	71.76	16,495.61	58.97
Non Food				
2. Alcoholic beverages, Tobacco and Narcotics *	620.31	1.03		
3. Clothing and footwear	1,383.22	2.29	879.53	3.14
4. Housing, Water, electricity and fuel	19,306.27	31.98	6,635.95	23.72
5. Furnishing, Household equipment & Routine Household maintenance	1,533.73	2.54	1,005.89	3.6
6. Health	2,650.13	4.39	884.42	3.16
7. Transport	6,401.44	10.61	3,430.49	12.26
8. Communication	1,993.16	3.30	1,329.27	4.75
9. Recreation and culture	785.87	1.30	419.27	1.5
10. Education	3,538.72	5.86	1,102.05	3.94
11. Restaurant and Hotels *	3,101.87	5.14		
12. Miscellaneous goods and services **	2,005.31	3.32	808.74	2.89

* Note 1: In CCPI (Base: 2006/07=100), Alcoholic beverages, Tobacco and Narcotics division was not included and Restaurants and Hotels division was included under the food group.

**Note 2: In CCPI (Base: 2006/07=100) vehicle insurance fee and revenue license fee added together and include in to the Transport division, but in CCPI (Base: 2013=100) vehicle insurance fee included in to the Miscellaneous goods and services as per the international recommendations.

It is Emphasized that Price Indices compiled under base years 2006/07 (Jan: 2006-Dec: 2007) and year 2013 cannot be compared as base year, market basket etc are different.